

CITY OF ROCKVILLE THRIFT PLAN

**Analysis of Investment Performance
Through December, 2007**



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March 2008



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March 14, 2008

Thrift Plan Committee
Rockville City Hall
111 Maryland Avenue
Rockville, MD 20850

Dear Committee Members:

This report provides an updated analysis of the performance of the City of Rockville's Thrift Plan for the various periods ended December 31, 2007.

The Principal MidCap Stock A Fund and the Principal LifeTime Separate Accounts were added to the Plan effective April 1, 2007.

The Principal Large Company Value Account was terminated effective 4/1/07. Assets were mapped into the Vanguard Windsor II Fund. In addition, the American Century Small Cap fund was also terminated effective 4/1/07. Assets were mapped into the Principal Small Cap Value fund.

Sincerely,

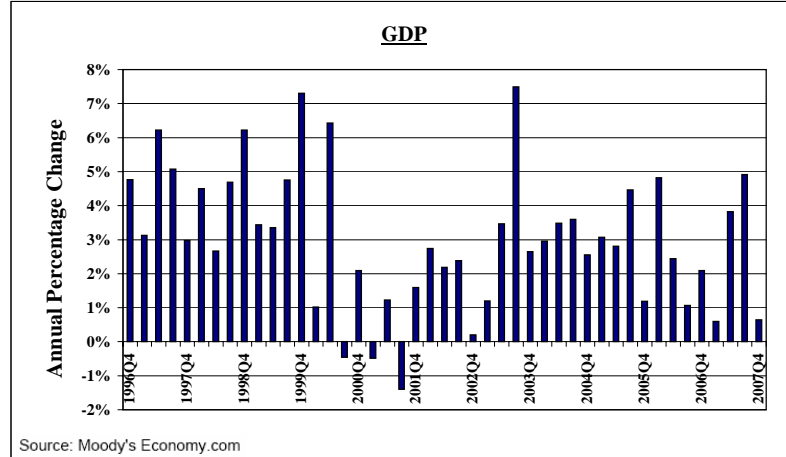
A handwritten signature in black ink, appearing to read "Robert A. Liberto", written in a cursive style.

Robert A. Liberto
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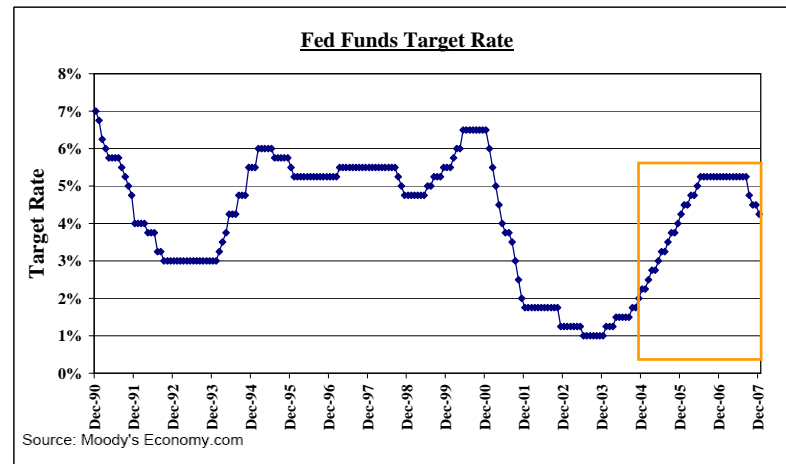
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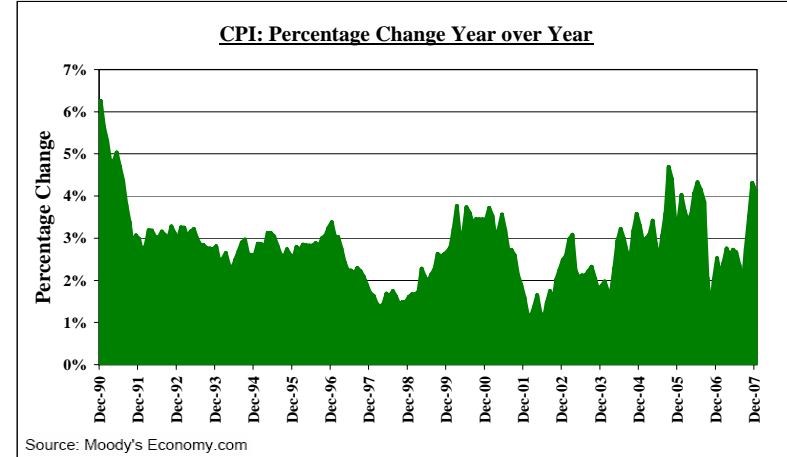
Macroeconomic Themes



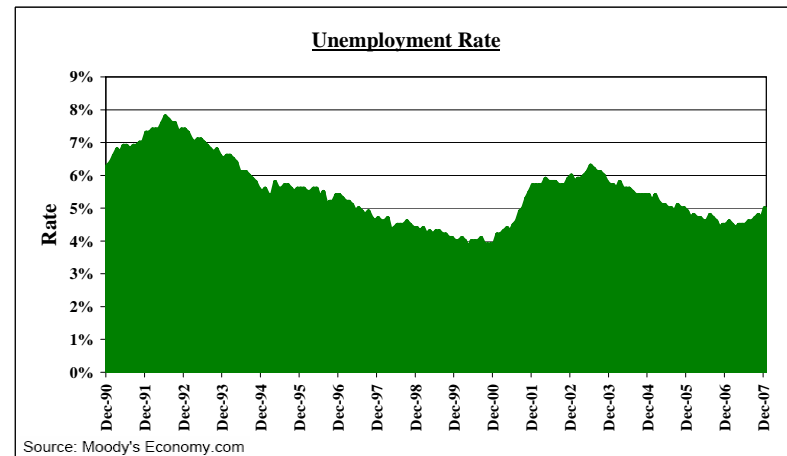
- Q4 2007 GDP advanced at a 0.6% annualized rate, a significant slowing from the 4.9% advance in Q3 2007. The Q4 figure was half of the consensus expectations. A fall in inventories and weaker growth in federal spending, exports and consumer spending were behind the slowdown. Weakness spread beyond housing and the risk of recession is increasing. The biggest reason for the slower growth in GDP was a large drop in inventories.
- Housing remains a major weight on growth. Real investment in residential structures fell 24% on an annualized basis, compared to a 21% decline during Q3.



- In response to slowing economic growth, weakening consumer spending, consumer sentiment, and continued deterioration in the housing market, the FOMC cut the Fed Funds Target Rate by a total of 50 bps throughout the fourth quarter to 4.25%. The FOMC made a cut of 25bps at both the October 31 and December 11 meetings.

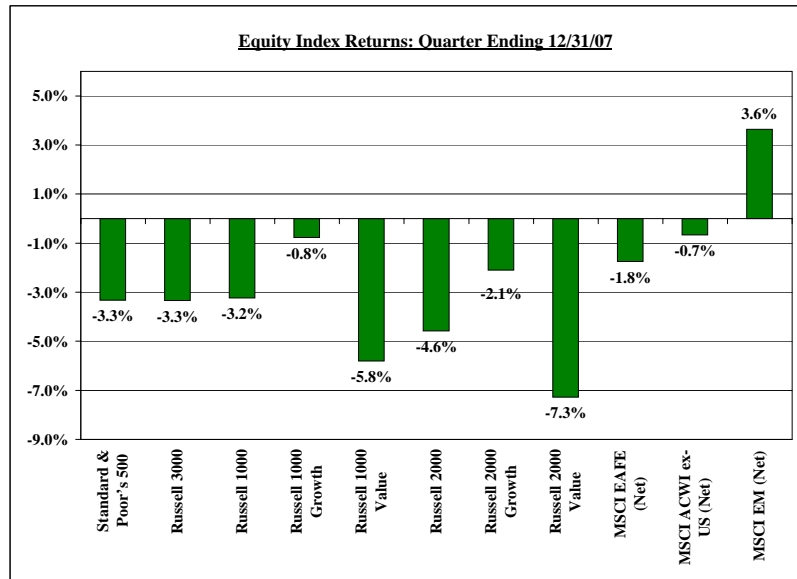


- On a year ago basis, headline CPI rose by 4.1% in December. CPI jumped 0.8% in November, as higher energy prices led to stronger top-line inflation. While core inflation is on the upper-bound of the Fed's "comfort range," the higher risk of recession negates the Fed's desire for anti-inflation policy action.
- The core index, which excludes food and energy prices, increased during Q4. Over the past year, core CPI registered a 2.4% rate, which increased slightly on a year-ago basis.



- The unemployment rate increased by 30 basis points to 5.0% in December. Payroll employment increased by only 18,000 jobs, the smallest gain since mid-2003. Job growth in professional, technical, healthcare and food services continued to be offset by job losses in construction, manufacturing and retail.

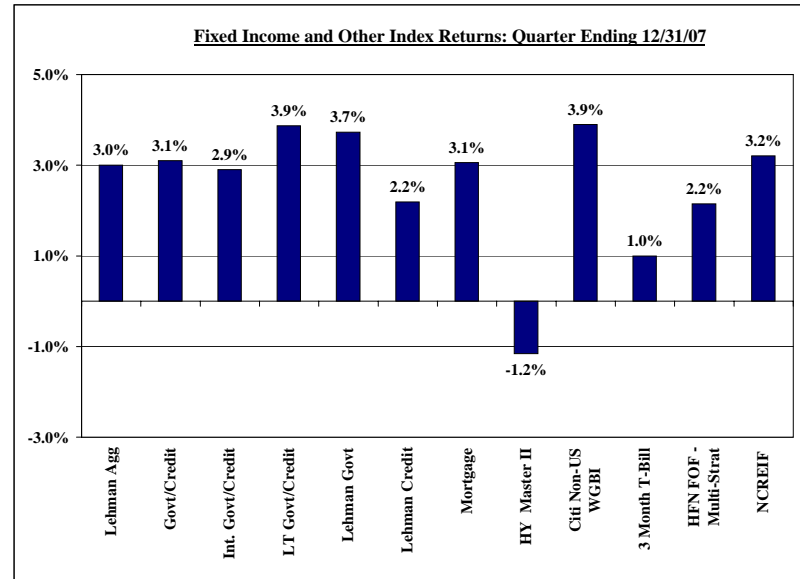
Selected Equity and Fixed Income Index Rates of Return for Periods Ended December 31, 2007



Equity Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	-3.3%	5.5	5.5	8.6	12.8	5.9
Russell 3000	-3.3%	5.1	5.1	8.9	13.6	6.2
Russell 1000	-3.2%	5.8	5.8	9.1	13.4	6.2
Russell 1000 Growth	-0.8%	11.8	11.8	8.7	12.1	3.8
Russell 1000 Value	-5.8%	-0.2	-0.2	9.3	14.6	7.7
Russell 2000	-4.6%	-1.6	-1.6	6.8	16.2	7.1
Russell 2000 Growth	-2.1%	7.1	7.1	8.1	16.5	4.3
Russell 2000 Value	-7.3%	-9.8	-9.8	5.3	15.8	9.1
MSCI EAFE (Net)	-1.8%	11.2	11.2	16.8	21.6	8.7
MSCI ACWI ex-US (Net)	-0.7%	16.7	16.7	19.9	24.0	10.1*
MSCI EM (Net)	3.6%	39.4	39.4	35.2	37.0	14.5*

*For 10-year performance, Gross returns are provided.

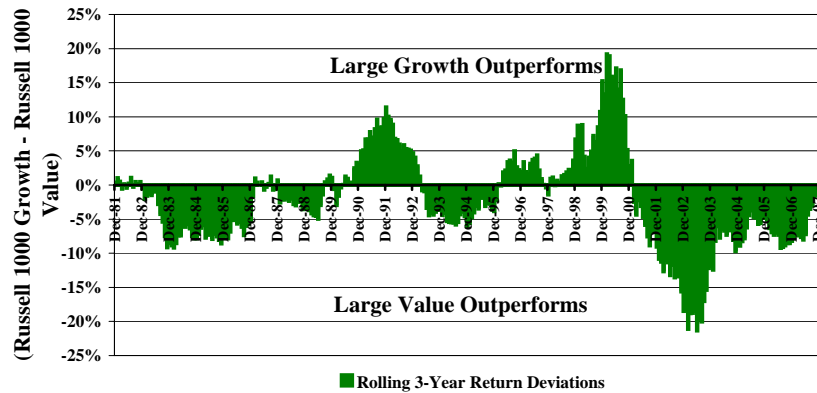


Fixed Income Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	3.0%	7.0	7.0	4.6	4.4	6.0
Lehman Govt/Credit	3.1%	7.2	7.2	4.4	4.4	6.0
Lehman Int. Govt/Credit	2.9%	7.4	7.4	4.3	4.1	5.8
Lehman Long Govt/Credit	3.9%	6.6	6.6	4.9	5.8	7.0
Lehman Govt	3.7%	8.7	8.7	4.9	4.1	5.9
Lehman Credit	2.2%	5.1	5.1	3.8	4.8	6.1
Lehman Mortgage	3.1%	6.9	6.9	4.9	4.5	5.9
ML High Yield Master II	-1.2%	2.2	2.2	5.5	10.8	5.5
Citigroup Non-US WGBI (Un)	3.9%	11.5	11.5	2.7	7.5	6.3
Citigroup 3 Month T-Bill	1.0%	4.7	4.7	4.2	3.0	3.6
<u>Other Indices</u>						
HFN HFOF Multi-Strat	2.2%	9.9	9.9	8.8	9.0	9.4
NCREIF Property Index	3.2%	15.8	15.8	17.5	15.1	12.9

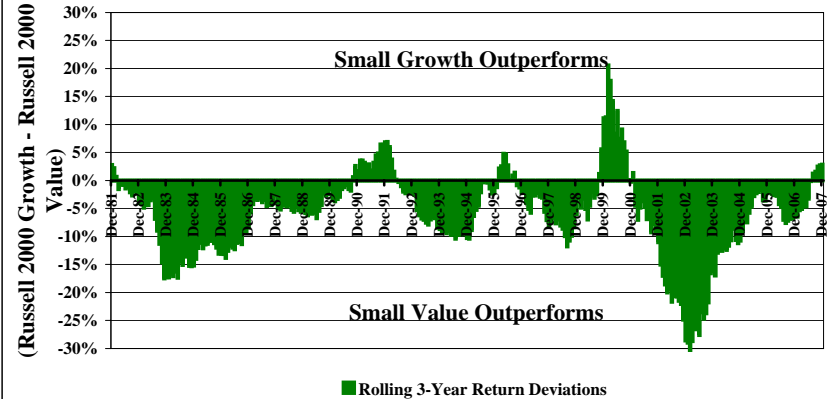
Equity Themes

Equity Style Cycle: Rolling Returns Analysis



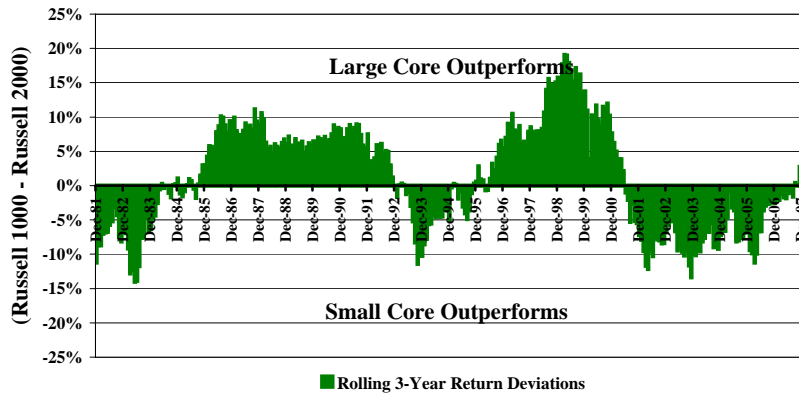
- Index Inception (i.e., January 1979): R1000V: **14.2%**; R1000G: **11.9%** (+230 bps)
- After 7 consecutive years of outperformance by the R1000V relative to the R1000G, the R1000G beat the R1000V on a trailing 1-year basis (+1199 bps).

Equity Style Cycle: Rolling Returns Analysis



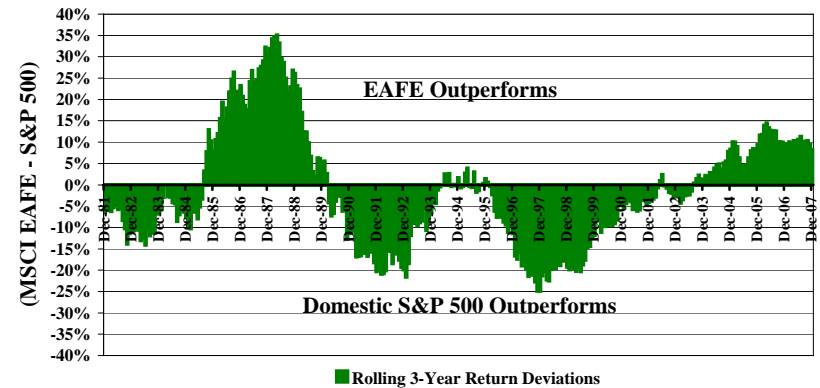
- Index Inception (i.e., January 1979): R2000V: **14.9%**; R2000G: **10.2%** (+472 bps)
- The R2000V outperformed the R2000G in 6 of last 10 calendar years; however, the R2000G outperformed the R2000V during the trailing 1-year (+1690 bps), 3-year (+280 bps), and 5-year (+70 bps) time periods.

Equity Market Cap Cycle: Rolling Returns Analysis



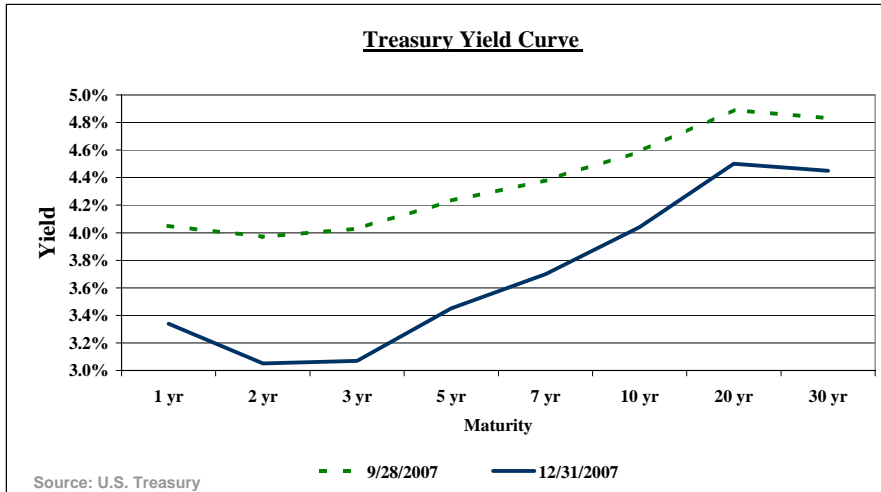
- Index Inception (i.e., January 1979): R1000: **13.2%**; R2000: **12.8%** (+40 bps)
- After outperforming for 7 of the last 8 calendar years, the R1000 outpaced the R2000 for the trailing 1-year (+740 bps) and 3-year (+230 bps) time periods.

Equity Country Cycle: Rolling Returns Analysis

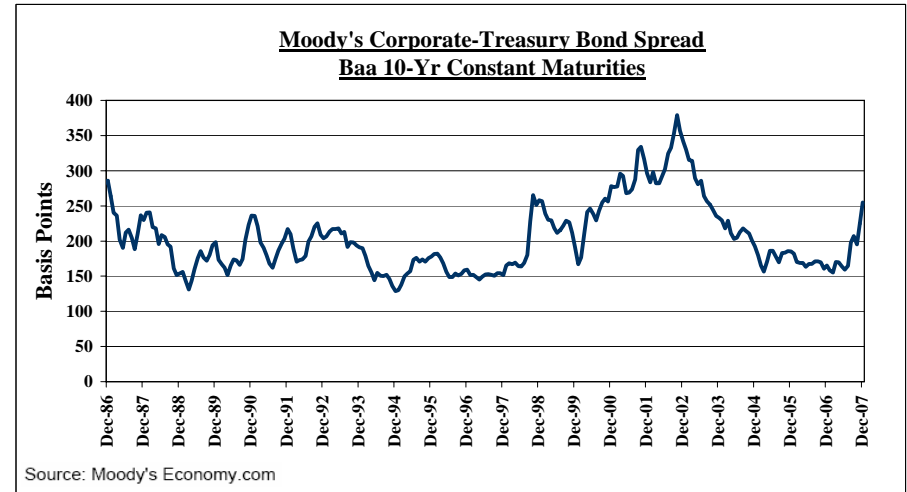


- Index Inception (i.e., January 1979): S&P 500: **13.2%**; EAFE: **11.4%** (+182 bps)
- The EAFE outperformed the S&P 500 in 7 of last 10 calendar years, including the last 6 in a row.

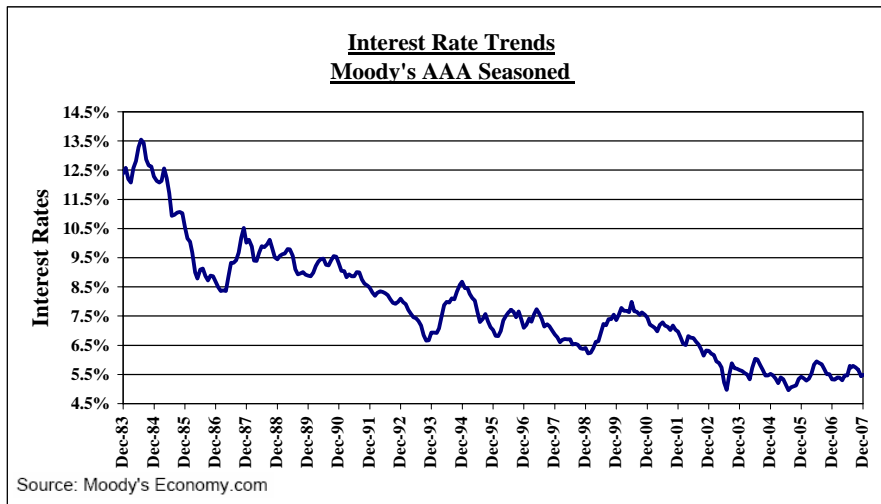
Fixed Income Themes



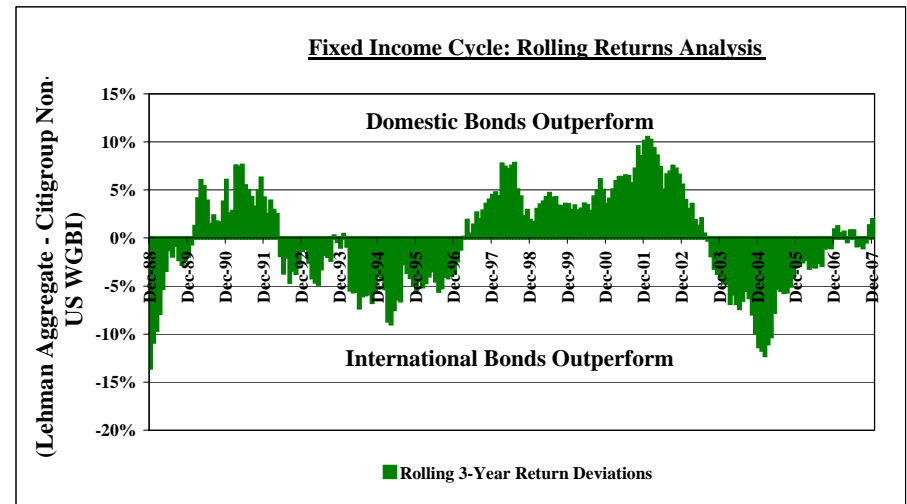
- In response to the tightening in overall credit conditions that threatened economic growth, the Fed cut the Fed Funds rate in 2007 by 100 bps from 5.25% to 4.25% with a 50 bps cut in September and 25 bps cuts in October and December. In the month of December, the 2- and 30-year Treasury finished up 5 bps (3.05%) and up 7 bps (+4.45%), respectively, resulting in spreads widening to +140 bps and a steeper yield curve at the end of December.



- For the second consecutive quarter, credit spreads continued to widen. During Q4, credit spreads widened by 48 bps, returning to levels last seen in 2003.

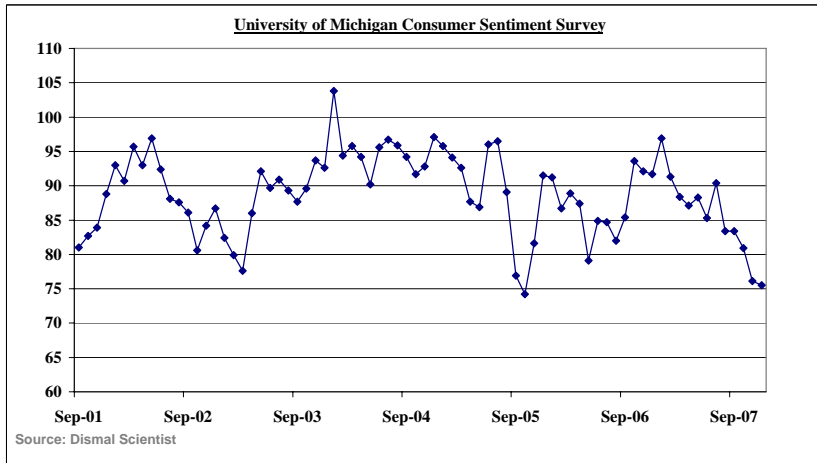


- During Q4, there was a continued flight to quality as investors shied away from high-yield debt.
- Corporate bond yields remain at historically low absolute levels, ending the quarter at 5.49%.
- Due to the recent "mispricing of credit risk", many of the U.S.'s credit rating agencies have downgraded higher rated bonds, including AAA issues, throughout the year. In addition, the rating companies have tightened their criteria for AAA rated bonds.

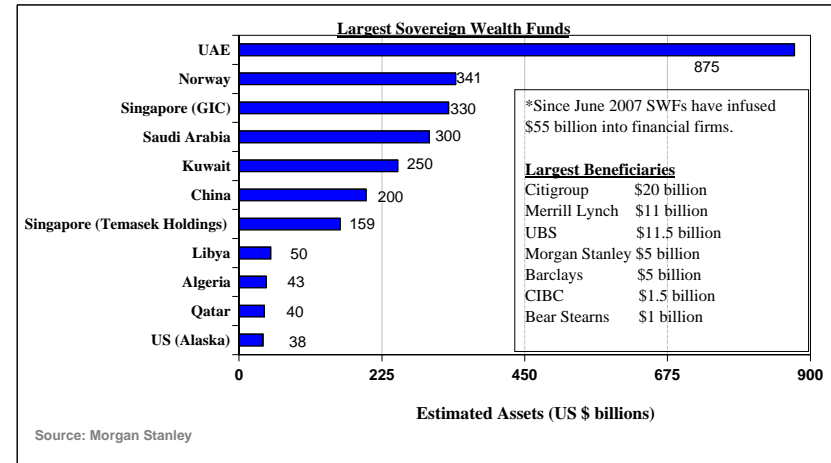


- International bonds outperformed domestic bonds during Q4, pushing international bonds ahead of U.S. bonds for the 1-year (11.5% vs. 7.0%) period. Domestic bonds remained ahead of international bonds (6.0% vs. 3.6%) for the 10-year annualized period.

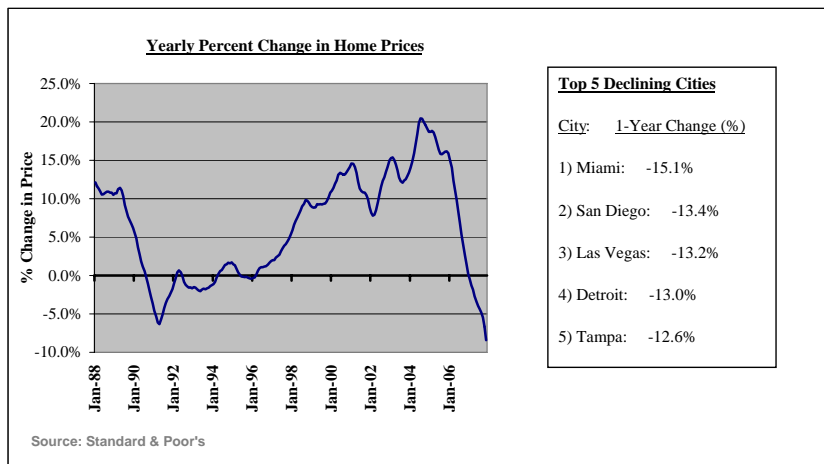
Themes of the Fourth Quarter



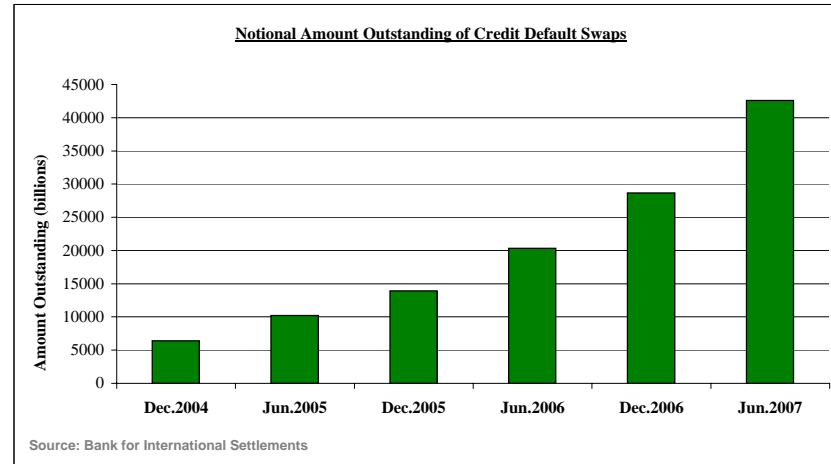
- Consumer sentiment (as measured by the University of Michigan Consumer Sentiment Survey) fell to 75.5 by year end. Since 1993, the index has only been below 80 for seven months.
- The list of issues weighing on consumer confidence includes rising energy costs, a declining stock market, falling home prices and slowing job growth. In general, these issues translate into a deterioration of the overall credit quality of the consumer.



- A major focus throughout Q4 was the influence and buying power of sovereign wealth funds ("SWF"s). Over the past couple of years, accumulated wealth in these funds has escalated and the number of new funds has vastly increased. SWFs are estimated to control \$3.2 trillion in assets and are expected to grow to \$12 trillion by 2015. Capital from SWFs is helping to cushion the blow from the current financial condition on businesses and consumers.



- The chart above depicts the change in annual returns for the S&P/Case-Shiller 10-City Composite Index. The 10-City Composite's annual decline of 8.4% is a record low.
- October's data was the first report of a record decline in more than 16 years, with a decline of 6.7%. The previous largest decline on record was 6.3% recorded in April 1991.
- Miami remains the weakest market, reporting a double-digit annual decline of 15.1%. San Diego, Las Vegas and Detroit followed with declines of 13.4%, 13.2% and 13.0%, respectively.



- Credit default swaps (CDS) are financial instruments designed to transfer the credit exposure of fixed income securities between parties; it works similar to an insurance policy against debt defaults. The credit risk in a CDS is comparable to credit risk in the underlying bonds; however, a material - and often difficult to analyze - concern is the management of counterparty risk.
- With bond values falling and defaults rising, especially in the mortgage arena, there is a concern that some of the institutions involved in these trades may be weakened and their problems could spread to the wider financial system.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Guaranteed Interest Account	To seek stability of principal.	The Fund gives a guaranteed interest rate for a specific period of time as determined or allowed by the plan. The rate is set at the start of the plan's 12-month deposit year. Each deposit made into the account during the deposit year gets the rate. A new rate is set at the start of each deposit year.
Principal Money Market Account	To seek a high level of current income consistent with preservation of principal and maintenance of liquidity.	The Fund invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar dominated securities, which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.
Principal Bond & Mortgage Account	To seek current income.	The Fund invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and U.S. government and agency-backed securities. Value is added primarily through sector allocation and security selection.
Principal Stock Emphasis Balanced Account	To seek current income and growth of capital.	The Fund primarily invests in other separate accounts offered by The Principal. It usually maintains at least 50% of assets in common stocks.
Vanguard Windsor II Fund Inv	To seek long-term growth of capital; current income is a secondary consideration.	The Fund invests primarily in undervalued stocks of medium and large companies, characterized by above-average dividend yields and below-average price/earnings ratios relative to the stock market. It may also invest up to 20% of assets in foreign securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Large Cap Stock Index Account	To seek returns in line with the S&P 500 Index.	The Fund normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.
Principal Large Company Growth Account	To seek long-term growth of capital.	The Fund primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. It may invest up to 25% of assets in foreign securities.
Principal Mid Cap Stock Fund (Edge)	To seek long-term capital appreciation.	The Fund invests at least 80% of net assets (plus any borrowings for investment purposes) in common stocks of companies with medium market capitalizations, which is similar to companies in the S&P Mid Cap 400 Index. The Fund may invest up to 20% of assets in REIT securities. It may invest in fixed income securities of any maturity, including mortgage-backed securities, and may invest up to 20% of assets in U.S. government securities and collateralized mortgage obligations. The Fund may invest up to 25% of assets in securities of foreign issuers.
Principal Small Company Value Account	To seek long-term growth of capital.	The Fund invests primarily in common stocks of small capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those companies in the Russell 2000 Value Index. It may invest up to 25% of assets in foreign securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Vanguard Explorer Fund	To seek long-term capital appreciation.	The Fund invests mainly in the stocks of small companies. These companies tend to be unseasoned but are considered by the Fund's advisors to have superior growth potential. These companies often provide little or no dividend income.
Principal Diversified International Account	To seek long-term growth of capital.	The Fund normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the U.S.; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the U.S. It may invest securities of companies with small to medium market capitalizations.
Principal LifeTime Strategic Income	The investment seeks current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund moderate exposure to the domestic and foreign equity and fixed income markets.
Principal LifeTime 2010 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2020 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal LifeTime 2020 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2020 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2030 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2030 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2040 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2040 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2050 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2050 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.

PLAN ACTIVITY
September 30, 2007 through December 31, 2007

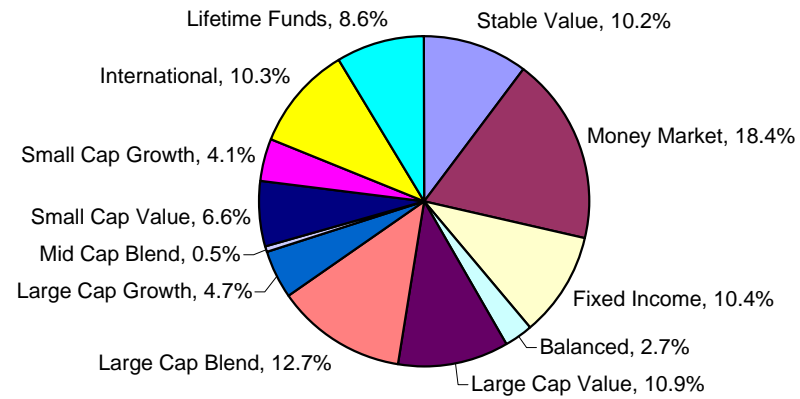
Funds	Beginning Balance Sept. 30, 2007	Contributions	Withdrawals/ Distributions	Net Transfers	Fees	Investment Gains/Losses	Ending Balance Dec. 31, 2007
Principal 2 Year Guaranteed Interest Account*	\$ 667,029	\$ 12,812	\$ (4,590)	\$ (253)	\$ (12)	\$ 5,741	\$ 680,727
Principal 7 Year Guaranteed Interest Account*	\$ 1,439,674	\$ 23,118	\$ (68,679)	\$ 20	\$ (837)	\$ 12,972	\$ 1,406,270
Principal Money Market Account	\$ 2,258,100	\$ 64,911	\$ (131,878)	\$ (98,528)	\$ (2,079)	\$ 24,840	\$ 2,115,366
Principal Bond & Mortgage Account	\$ 1,230,449	\$ 36,818	\$ (37,706)	\$ (5,521)	\$ (778)	\$ 13,952	\$ 1,237,214
Principal Stock Emphasis Balanced Account	\$ 374,838	\$ 9,357	\$ (7,191)	\$ (162)	\$ (75)	\$ (1,411)	\$ 375,355
Vanguard Windsor II Fund Inv	\$ 1,540,042	\$ 38,444	\$ (30,960)	\$ 549	\$ (592)	\$ (93,926)	\$ 1,453,557
Principal Large Cap Stock Index Account	\$ 2,676,493	\$ 44,733	\$ (154,742)	\$ (5,192)	\$ (838)	\$ (89,822)	\$ 2,470,632
Principal Large Company Growth Account	\$ 513,881	\$ 16,591	\$ (3,680)	\$ 67,553	\$ (322)	\$ 19,984	\$ 614,006
Principal Mid Cap Stock Fund (Edge)	\$ 6,049	\$ 1,808	\$ -	\$ 429	\$ (4)	\$ (749)	\$ 7,533
Principal Small Company Value Account	\$ 1,650,996	\$ 23,209	\$ (8,958)	\$ (58,973)	\$ (93)	\$ (79,973)	\$ 1,526,209
Vanguard Explorer Fund	\$ 488,278	\$ 14,496	\$ (4,957)	\$ 24,267	\$ (1,099)	\$ (20,731)	\$ 500,255
Principal Diversified International Account	\$ 1,505,396	\$ 36,308	\$ (23,718)	\$ 76,153	\$ (1,243)	\$ (26,437)	\$ 1,566,459
Principal Lifetime Strategic Income	\$ 8,234	\$ 487	\$ -	\$ -	\$ (8)	\$ (106)	\$ 8,608
Principal Lifetime 2010	\$ 69,534	\$ 6,003	\$ -	\$ 50	\$ (4)	\$ (1,855)	\$ 73,727
Principal Lifetime 2020	\$ 244,327	\$ 11,346	\$ -	\$ 41	\$ (1)	\$ (6,653)	\$ 249,059
Principal Lifetime 2030	\$ 111,653	\$ 5,005	\$ -	\$ -	\$ -	\$ (3,145)	\$ 113,512
Principal Lifetime 2040	\$ 27,640	\$ 3,082	\$ -	\$ -	\$ (10)	\$ (848)	\$ 29,864
Principal Lifetime 2050	\$ 4,272	\$ 4,303	\$ -	\$ -	\$ -	\$ (194)	\$ 8,381
Principal Common Stock Account	\$ 376,369	\$ -	\$ (23,506)	\$ (433)	\$ (25)	\$ 38,066	\$ 390,471
Total	\$ 15,193,252	\$ 352,831	\$ (500,563)	\$ 0	\$ (8,019)	\$ (210,295)	\$ 14,827,205

* Contributions include matured accounts reinvested

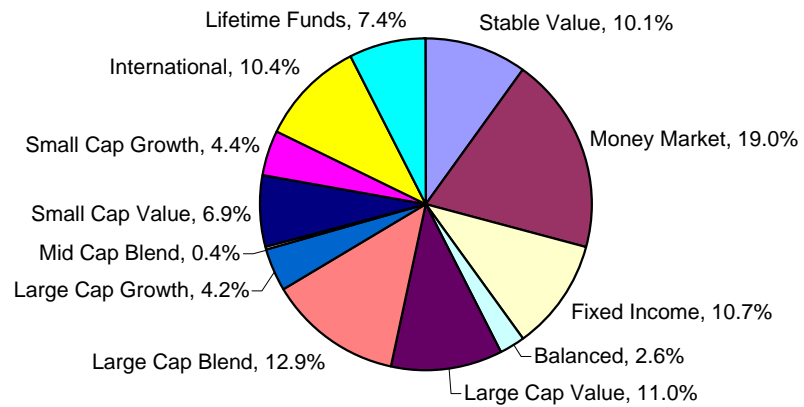
Asset Allocation Summary
As of December 31, 2007

Fund	Plan Assets	% of Total
Principal 2 Year Guaranteed Interest Account*	\$ 680,727	4.6%
Principal 7 Year Guaranteed Interest Account*	\$ 1,406,270	9.5%
Principal Money Market Account	\$ 2,115,366	14.3%
Principal Bond & Mortgage Account	\$ 1,237,214	8.3%
Principal Stock Emphasis Balanced Account	\$ 375,355	2.5%
Vanguard Windsor II Fund Inv	\$ 1,453,557	9.8%
Principal Large Cap Stock Index Account	\$ 2,470,632	16.7%
Principal Large Company Growth Account	\$ 614,006	4.1%
Principal Mid Cap Stock Fund (Edge)	\$ 7,533	0.1%
Principal Small Company Value Account	\$ 1,526,209	10.3%
Vanguard Explorer Fund	\$ 500,255	3.4%
Principal Diversified International Account	\$ 1,566,459	10.6%
Principal Lifetime Strategic Income	\$ 8,608	0.1%
Principal Lifetime 2010	\$ 73,727	0.5%
Principal Lifetime 2020	\$ 249,059	1.7%
Principal Lifetime 2030	\$ 113,512	0.8%
Principal Lifetime 2040	\$ 29,864	0.2%
Principal Lifetime 2050	\$ 8,381	0.1%
Principal Common Stock Account	\$ 390,471	2.6%
Total Assets	\$ 14,827,205	100.0%

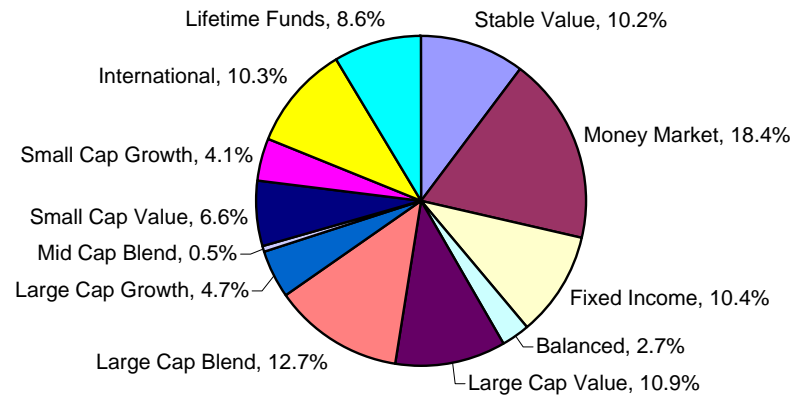
Asset Allocation as of December 31, 2007



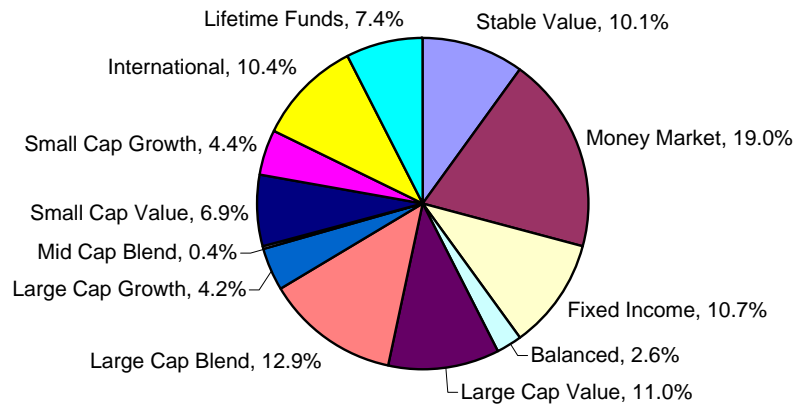
Asset Allocation as of September 30, 2007



Plan Contributions - 4th Quarter 2007



Plan Contributions - 3rd Quarter 2007



Performance Summary
For Periods Ended December 31, 2007

Funds	Quarter	1 Year	3 Years	5 Years
Principal 2-Year Guaranteed Interest Account	3.27	3.58	3.30	2.33
Principal 7-Year Guaranteed Interest Account	4.03	4.03	3.77	3.45
Principal Money Market Account	1.16	4.86	4.04	2.73
3 Month U.S. Treasury Bill	1.07	4.63	4.27	3.04
Principal Bond & Mortgage Account	1.15	3.66	3.57	4.11
Lehman Brothers Aggregate Bond Index	3.00	6.96	4.56	4.42
Median of the Core Fixed Income Fund Universe	2.33	5.83	4.02	4.25
Principal Stock Emphasis Balanced Account	-0.36	9.95	11.56	14.07
58.0% Russell 3000 / 30.0% LB Agg / 12.0% MSCI EAFE Net	-1.24	6.54	8.61	11.83
Median of the Balanced Fund Universe	-1.39	6.29	7.51	10.35
Vanguard Windsor II Fund Inv	-6.07	2.23	8.97	14.77
Russell 1000 Value Index	-5.80	-0.17	9.32	14.62
Median of the Large Cap Value Fund Universe	-5.17	1.57	8.66	13.30
Principal Large Cap Stock Index Account	-3.42	5.18	8.30	12.45
S&P 500 Index	-3.33	5.49	8.62	12.83
Median of the Large Cap Blend Fund Universe	-3.39	5.00	8.23	12.39
Principal Large Company Growth Account	3.83	23.01	14.69	15.71
Russell 1000 Growth Index	-0.77	11.81	8.68	12.11
Median of the Large Cap Growth Fund Universe	-0.38	13.10	8.97	12.45
Principal Mid Cap Stock Fund ***WATCHLIST***	-10.74	-8.63	-	-
S&P Mid Cap 400 Index	-2.73	7.98	-	-
Median of the Mid Cap Blend Fund Universe	-3.42	5.26	-	-
Principal Small Company Value Account	-4.94	-7.00	6.74	16.30
Russell 2000 Value Index	-7.28	-9.78	5.27	15.80
Median of the Small Cap Value Fund Universe	-7.21	-7.68	5.35	15.08
Vanguard Explorer Fund	-4.07	5.06	8.00	15.63
Russell 2000 Growth Index	-2.10	7.05	8.12	16.50
Median of the Small Cap Growth Fund Universe	-3.28	8.66	7.81	15.28

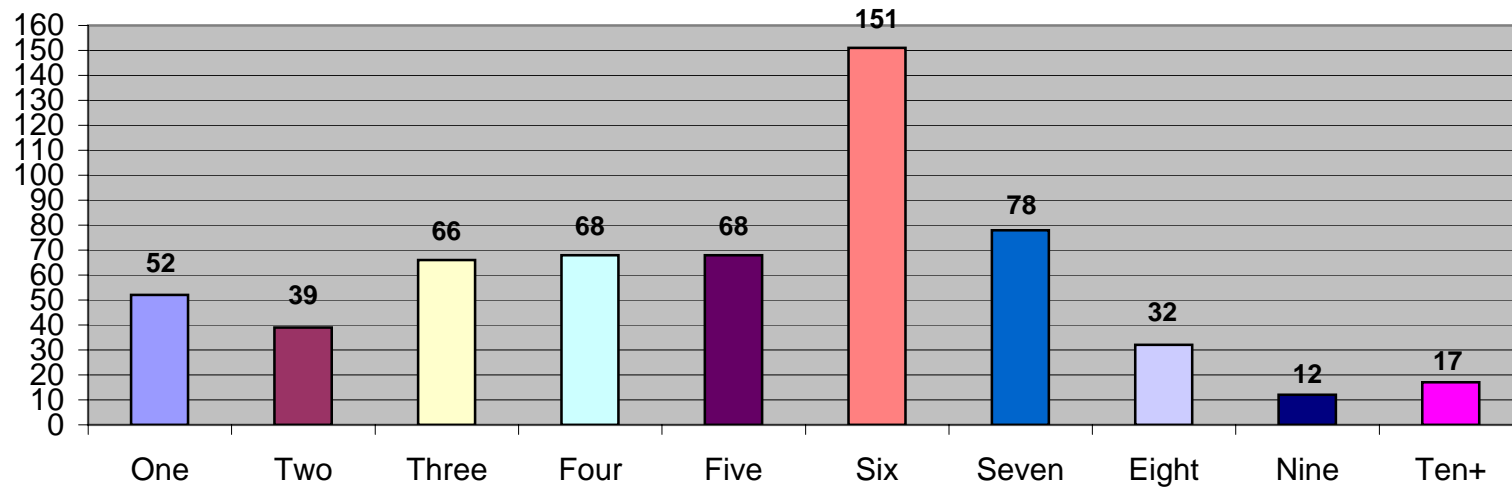
Performance Summary
For Periods Ended December 31, 2007

Funds	Quarter	1 Year	3 Years	5 Years
<i>Principal Diversified International Stock Account</i>	-1.50	16.36	22.74	24.50
MSCI Net EAFE	-1.75	11.17	16.83	21.59
Median of the Foreign Equity Fund Universe	-1.92	10.77	16.75	21.35
<i>Principal Lifetime Strategic Income</i>	-1.26	1.58	4.78	8.02
75.0% LB Agg / 19.0% Russell 3000 / 6.0% MSCI EAFE Net	1.52	6.98	6.16	7.20
<i>Principal Lifetime 2010</i>	-2.40	3.45	6.84	10.23
43.0% LB Agg / 41.9% Russell 3000 / 15.1% MSCI EAFE Net	-0.36	6.98	8.29	10.87
<i>Principal Lifetime 2020</i>	-2.65	5.07	8.80	11.92
51.1% Russell 3000 / 29.5% LB Agg / 19.4% MSCI EAFE Net	-1.15	6.97	9.20	12.45
<i>Principal Lifetime 2030</i>	-2.74	6.10	9.74	12.93
57.3% Russell 3000 / 22.5% MSCI EAFE Net / 20.2% LB Agg	-1.69	6.97	9.84	13.55
<i>Principal Lifetime 2040</i>	-2.89	6.79	10.24	13.49
61.8% Russell 3000 / 24.7% MSCI EAFE Net / 13.5% LB Agg	-2.08	6.95	10.30	14.35
<i>Principal Lifetime 2050</i>	-2.94	6.96	10.64	14.14
64.2% Russell 3000 / 25.8% MSCI EAFE Net / 10.0% LB Agg	-2.29	6.94	10.53	14.76

Participant Counts
as of December 31, 2007

Fund	Number of Participants per Fund	Number of One-Funders
Principal 2 Year Guaranteed Interest Account*	116	4
Principal 7 Year Guaranteed Interest Account*	203	2
Principal Money Market Account	303	30
Principal Bond & Mortgage Account	305	0
Principal Stock Emphasis Balanced Account	94	0
Vanguard Windsor II Fund Inv	323	2
Principal Large Cap Stock Index Account	379	0
Principal Large Company Growth Account	224	1
Principal Mid Cap Stock Fund (Edge)	15	0
Principal Small Company Value Account	230	1
Vanguard Explorer Fund	188	0
Principal Diversified International Account	325	1
Principal Lifetime Strategic Income	9	1
Principal Lifetime 2010	17	0
Principal Lifetime 2020	22	4
Principal Lifetime 2030	16	3
Principal Lifetime 2040	13	2
Principal Lifetime 2050	9	1
Principal Common Stock Account	211	0

Principal
Investment Diversification as of December 31, 2007



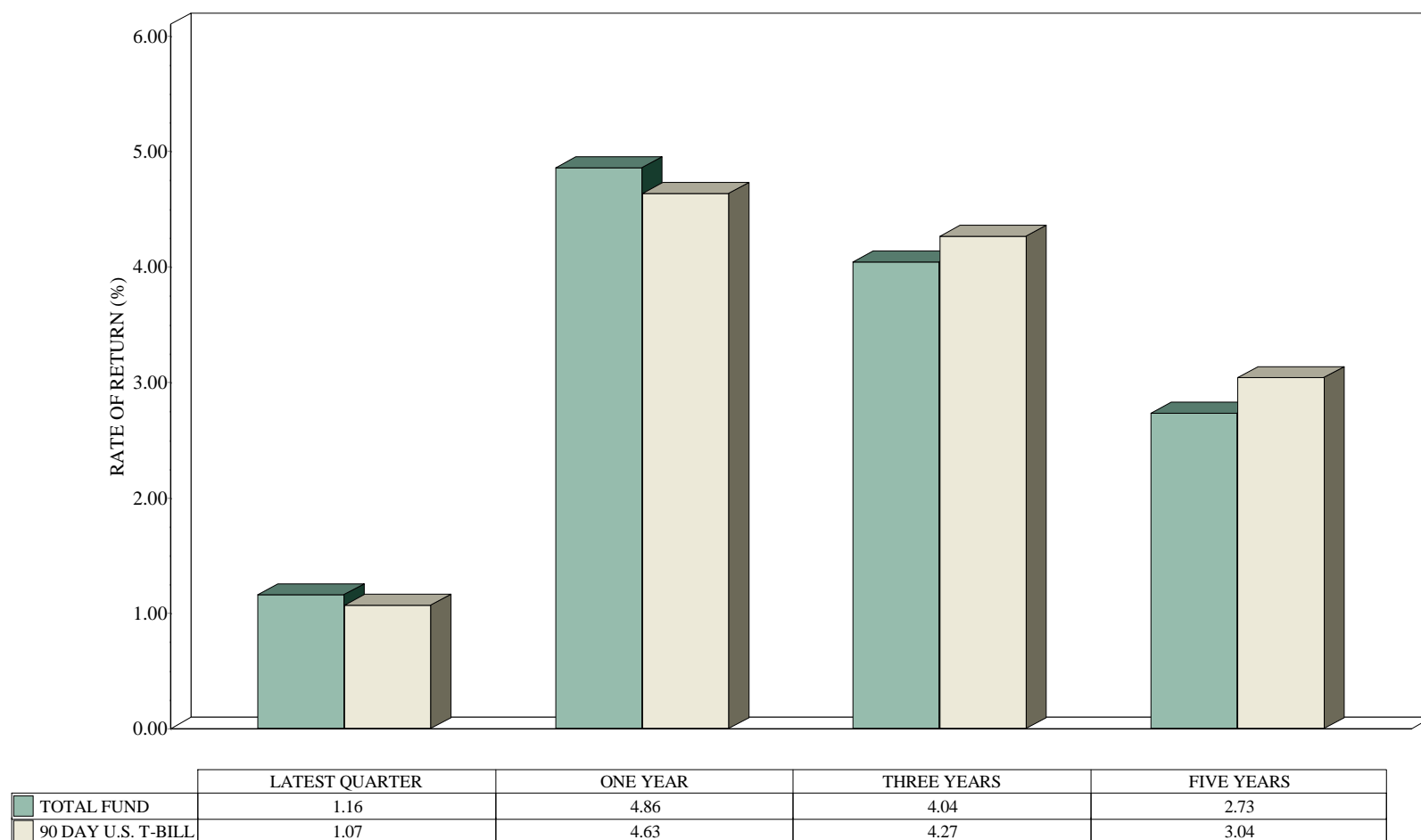
Number of Funds	Number of Participants	Percent
One	52	8.9%
Two	39	6.7%
Three	66	11.3%
Four	68	11.7%
Five	68	11.7%
Six	151	25.9%
Seven	78	13.4%
Eight	32	5.5%
Nine	12	2.1%
Ten+	17	2.9%
	583	100%
Average number of funds being used in the Plan:		
		4.9
Average Account Balance		\$25,303
Total Participants in Plan		583

COMMENTS AND CONCLUSIONS

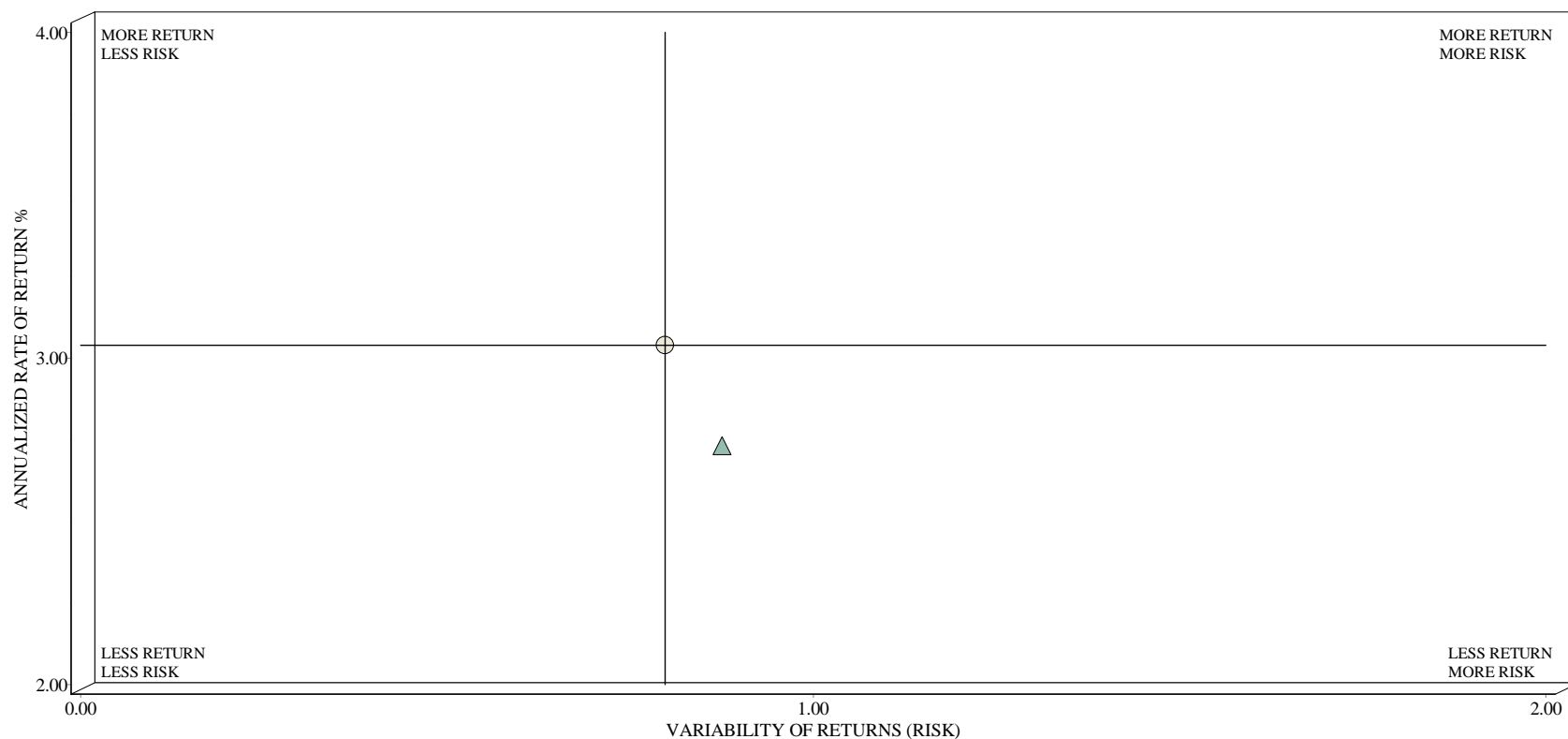
- The **Principal Bond & Mortgage Account** underperformed the LB Aggregate Bond Index (1.2% vs. 3.0%). During the fourth quarter, the Fund was negatively impacted by overweighting the mortgage-backed securities (MBS), asset-backed securities (ABS), commercial mortgage-backed securities (CMB) and investment-grade corporate bond sectors, while underweighting U.S. agencies and U.S. Treasuries. Portfolio performance was also hindered by an out-of-index allocation to below-investment-grade corporate bonds. The majority of underperformance came during November as risk aversion peaked, creating the worst month of performance for spread product (all non-Treasury securities) in over a decade.
- The **Vanguard Windsor II Fund (VWNFX)** underperformed the Russell 1000 Value Index (-6.1% vs. -5.8%). Although the Fund's was underweight to the Financial sector relative to the benchmark, poor stock selection within the sector included the Fund's largest individual detractors from performance: Citigroup (-36%), SLM (-59%), Washington Mutual (-61%), and Bear Sterns (-11%). The Fund's underweight in the top-performing Energy sector detracted on a relative basis, but strong stock selection within this sector, such as Occidental Petroleum (+21%), boosted absolute results. The advisors maintained an underweighted stake in the Energy sector in the belief that valuations largely reflected the favorable fundamentals driving energy companies.
- The **Principal Mid Cap Stock Fund** significantly underperformed the S&P Mid Cap 400 Index (-10.7% vs. -2.7%) over the fourth quarter. The Fund declined during the quarter due to an overweight position in the financial sector and significant declines in several stocks. Specifically in the Financial sector, PMI Group, AMBAC Corp. and TCF Financials suffered from the subprime fallout. AMR Corp and Continental Airlines underperformed due to investor concern that rising oil prices would depress future earnings. IMS, a provider of market intelligence to the pharmaceutical industry, reported disappointing earnings growth. In addition, Diebold Inc and Weight Watchers contributed to the negative performance over the quarter. Similarly, over the 1-year period, the Fund underperformed the Index even more drastically (-8.6% vs. 8.0%). During the year, an overweight in Financials and an underweight in Industrials detracted from performance. Stock selection was the primary negative to performance during the year. Stocks intimately involved in the subprime space suffered negatively. In particular, AMBAC Financial Group, PMI Group, MGIC Investment Corp, and Fidelity National Financials within the Financials sector, and Network Appliances and Aaron Rent within homebuilding, detracted from the Fund's yearly returns. **This Fund was placed on the watchlist after the quarter ended September 30, 2007.**

- The **Vanguard Explorer Fund (VEXPX)** underperformed the Russell 2000 Growth Index over the last quarter of 2007 (-4.1% vs. -2.1%). In Information Technology, the biggest detractor was the semiconductor industry (-12.4%), as a softening U.S. economy has dimmed the demand outlook for technology purchases. Poor stock selection in the strongly performing Energy sector cost the portfolio 0.4% of relative performance as oil prices increased 18% in the quarter. The Fund's stake in the Consumer Discretionary sector (-11.0%) proved to be the top detractor from overall performance. Investors retreated from the sector because of concerns that the combination of a credit crunch, higher energy prices, and declining home values had impaired consumers' ability to continue spending. In response to the increased market volatility at the end of 2007, the Fund maintained a defensive posture with respect to valuations—its price/earnings and price/book ratios have been below the market's, but earnings growth has been similar to the market's.
- All of the **Principal LifeTime Funds** underperformed their respective Policy Indices during the fourth quarter of 2007. The Funds were comprised of different allocations to several underlying funds. The Bond & Mortgage Securities Fund made up a majority of the fixed income allocation, especially within the Principal LifeTime Strategic Income Fund. Although fixed-income had strong overall performance during the quarter, the Bond & Mortgage Securities Fund had weak relative performance due to an underweight to top performing U.S. agencies and Treasuries, and an overweight to CMBs, ABS, and investment grade corporates. Within the portfolio, the Preferred Securities Fund, returned -6.0% as the preferred market continued to get hammered due to the high concentration of financial issuers in the preferred space. Within domestic equities, very strong performance from the Fund's growth managers and the Disciplined Large Cap Blend Fund helped boost returns. The International Growth Fund posted weak relative returns. In addition, exposure to real estate securities (REITs) detracted from performance as the Real Estate Securities Fund returned -11.6%. The NCREIF index is not incorporated into any of the of the LifeTime Funds' policy index allocations.

**PRINCIPAL MONEY MARKET
TIME-WEIGHTED RETURNS**

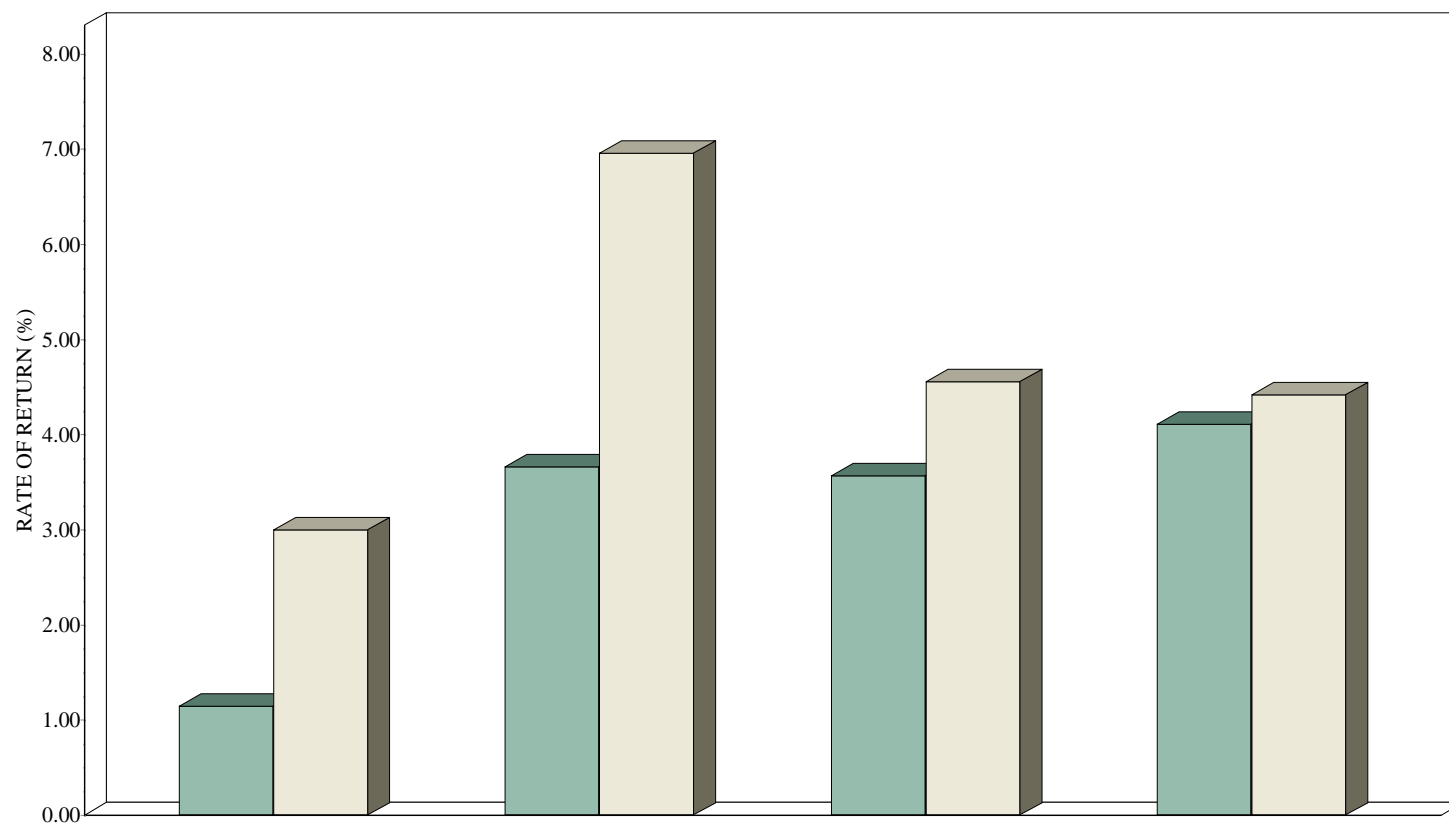


PRINCIPAL MONEY MARKET
CAPITAL MARKET LINE - 5 YEARS



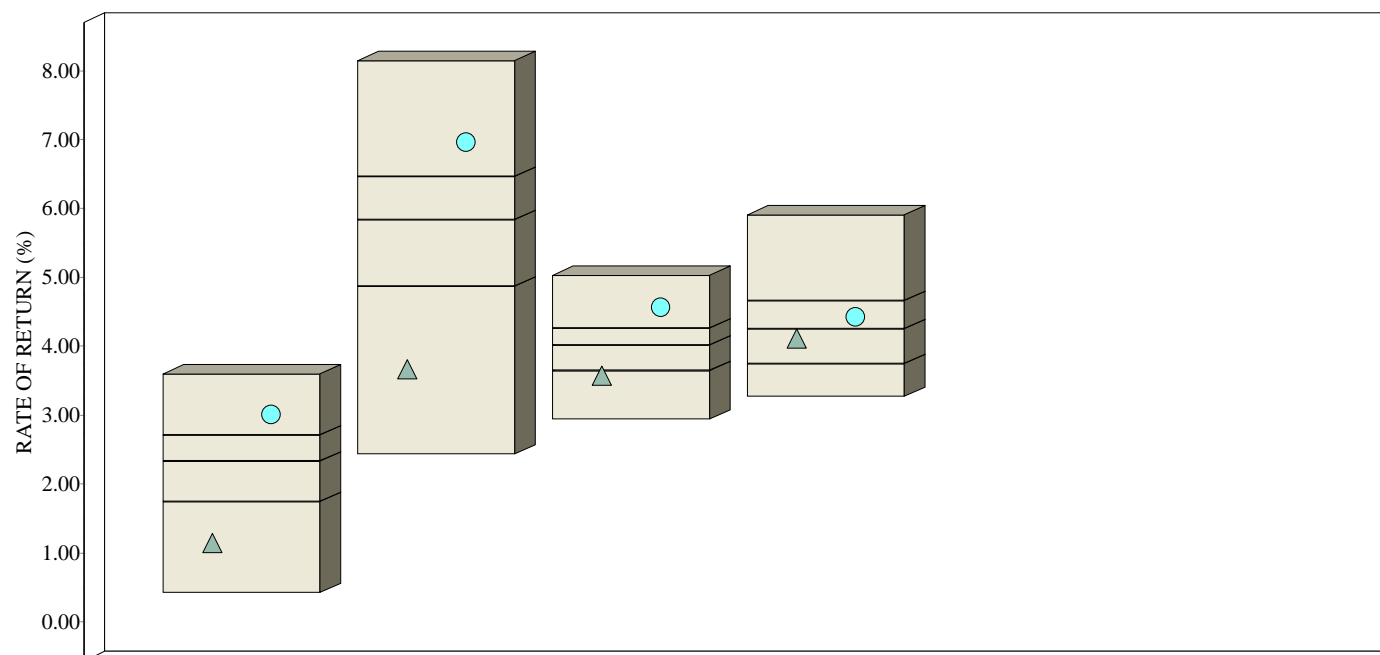
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	2.73	0.88	N/A	N/A	N/A
○ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL BOND AND MORTGAGE
TIME-WEIGHTED RETURNS**



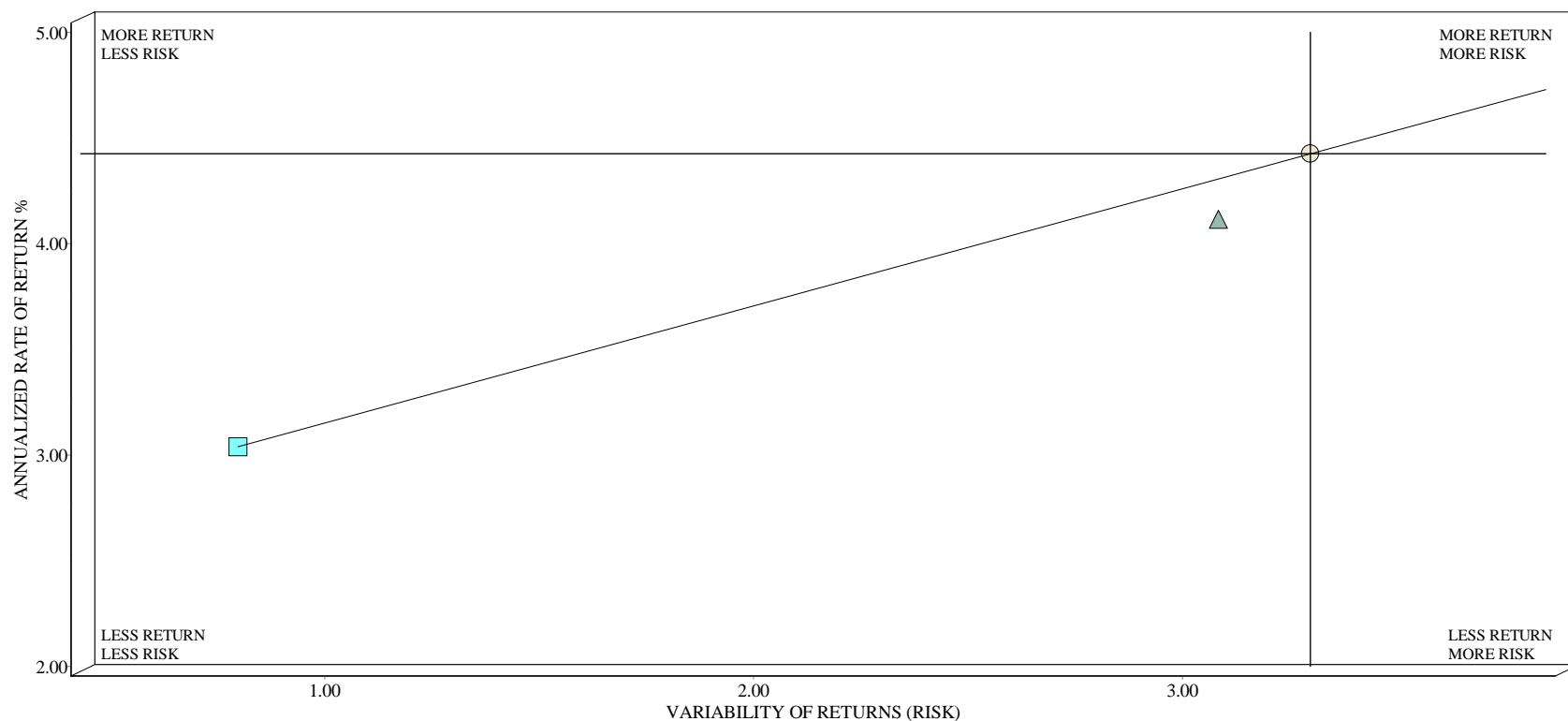
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL BOND MTG	1.15	3.66	3.57	4.11
LB AGGREGATE BOND	3.00	6.96	4.56	4.42

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST CORE FIXED INCOME MUTUAL FUNDS



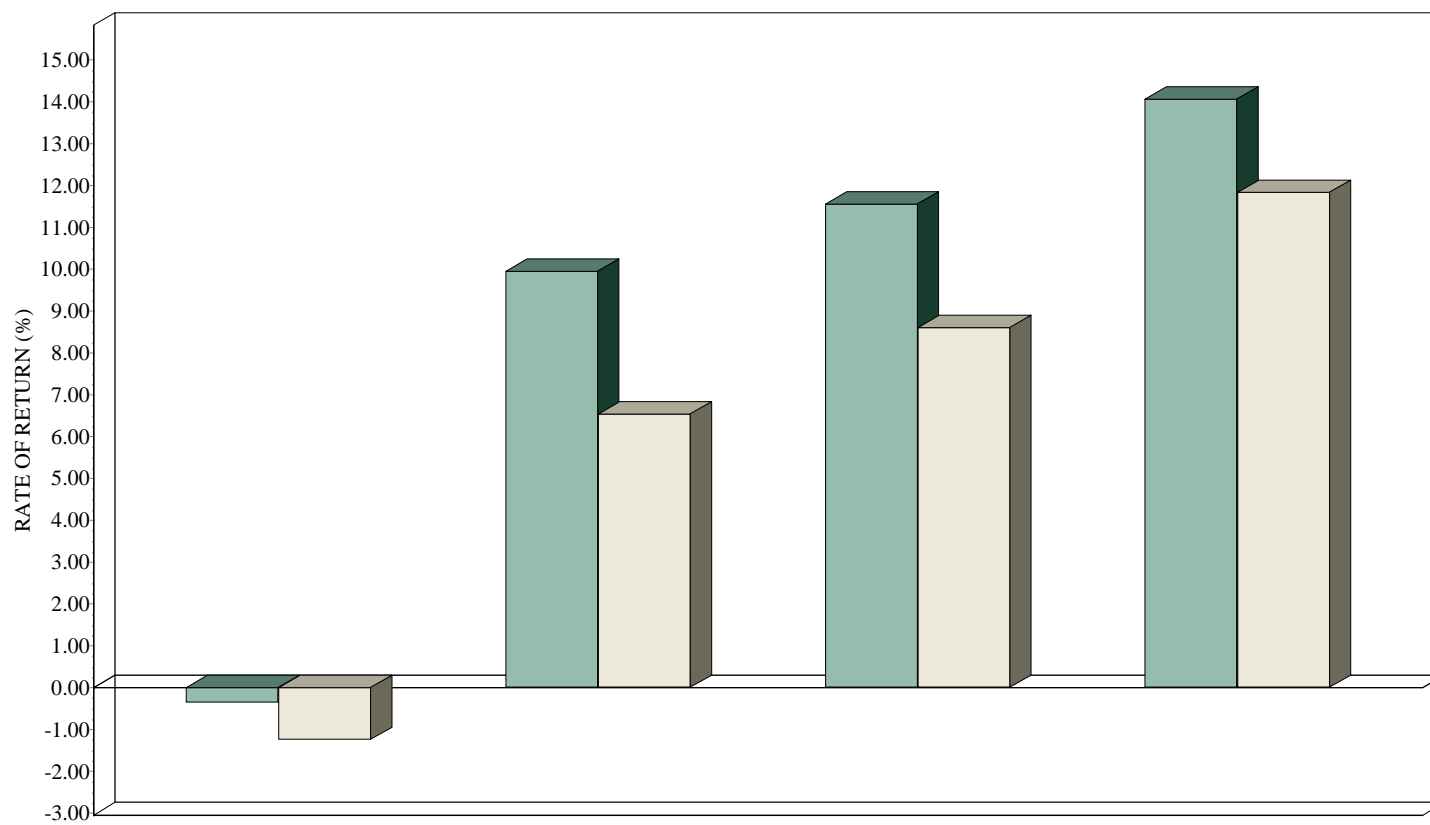
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		3.60		8.15		5.03		5.90
FIRST QUARTILE		2.71		6.47		4.26		4.66
MEDIAN VALUE		2.33		5.83		4.02		4.25
THIRD QUARTILE		1.75		4.87		3.65		3.74
LOWEST VALUE		0.42		2.43		2.94		3.27
MEAN		2.23		5.60		3.97		4.25
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL BOND MTG	1.15	92	3.66	91	3.57	77	4.11	58
● LB AGGREGATE BOND	3.00	9	6.96	8	4.56	9	4.42	36

PRINCIPAL BOND AND MORTGAGE
CAPITAL MARKET LINE - 5 YEARS



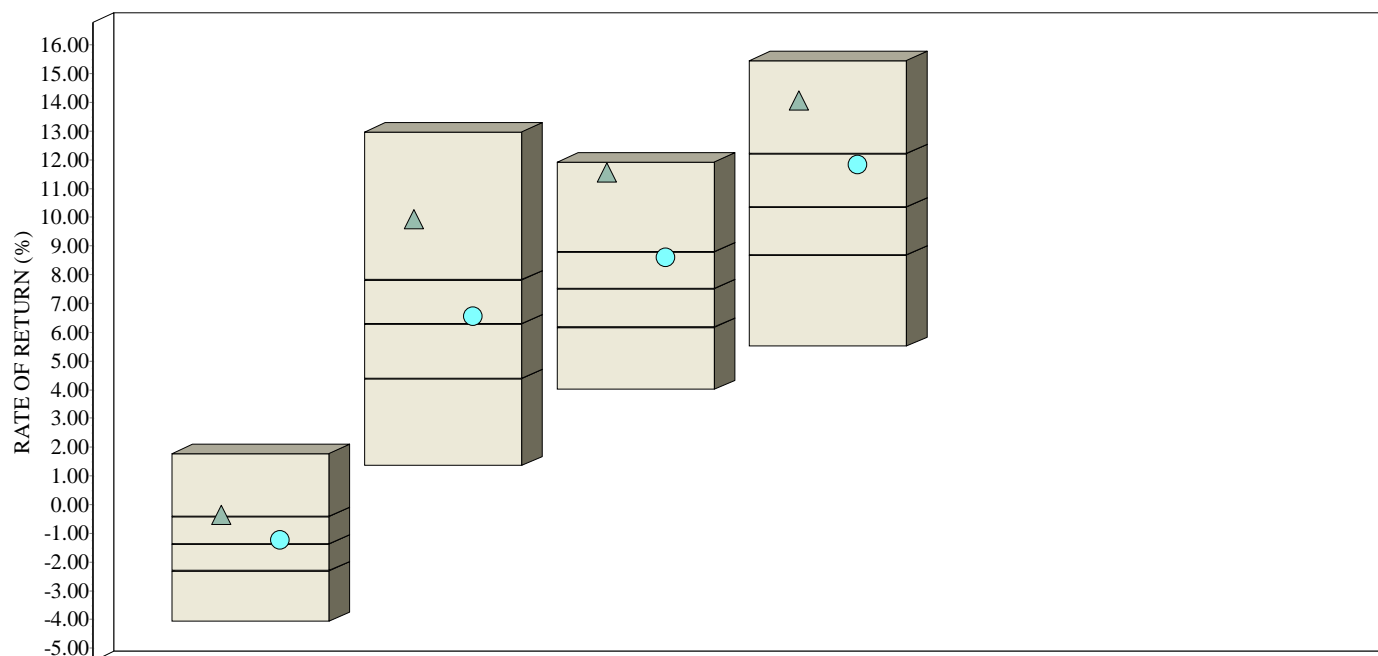
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	4.11	3.08	0.92	-0.19	90.56
○ LB AGGREGATE BOND	4.42	3.30	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL STOCK EMPHASIS BALANCED
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL STOCK EMP	-0.36	9.95	11.56	14.07
POLICY INDEX	-1.24	6.54	8.61	11.83

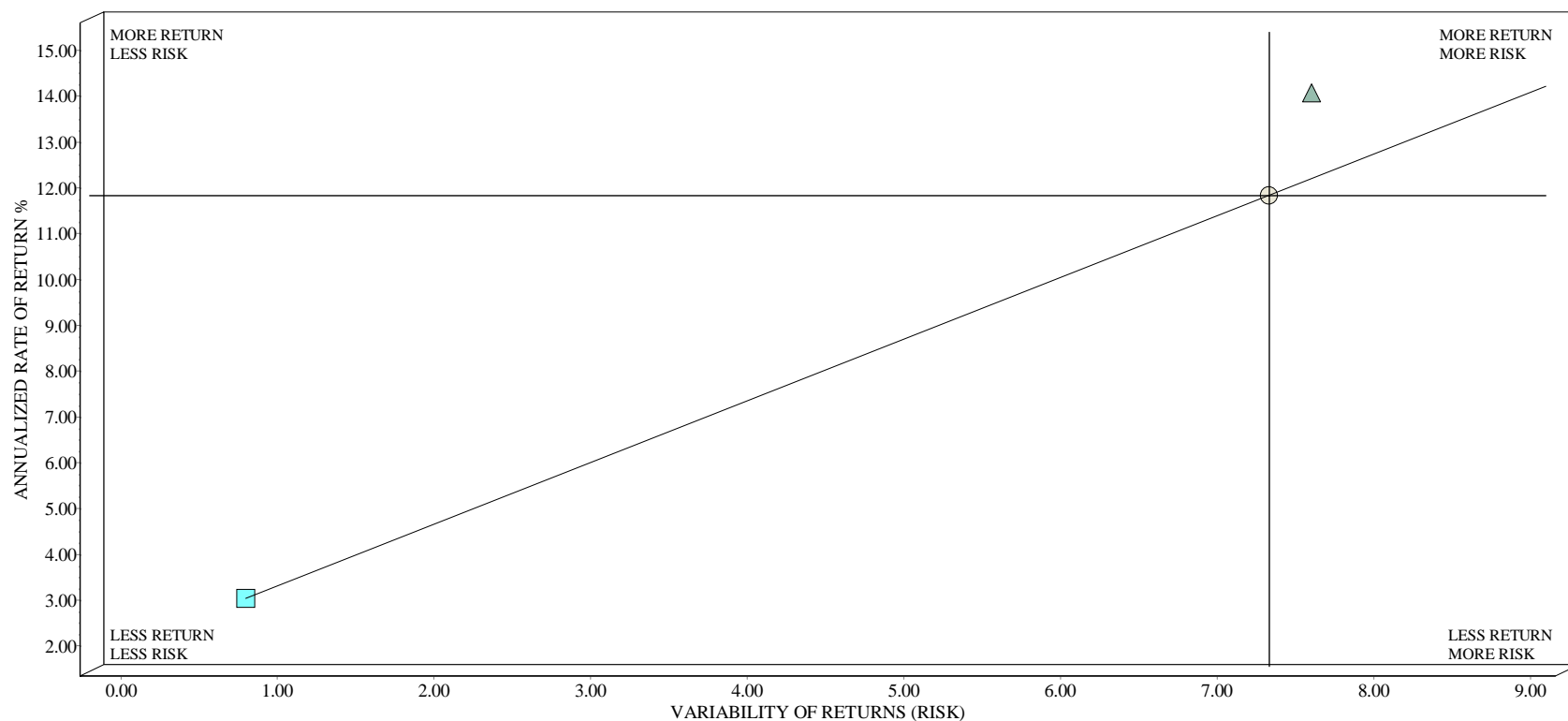
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST BALANCED MUTUAL FUNDS



	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		1.78		12.96		11.92		15.46
FIRST QUARTILE		-0.42		7.80		8.79		12.20
MEDIAN VALUE		-1.39		6.29		7.51		10.35
THIRD QUARTILE		-2.33		4.37		6.16		8.67
LOWEST VALUE		-4.09		1.33		3.99		5.49
MEAN		-1.34		6.19		7.51		10.39

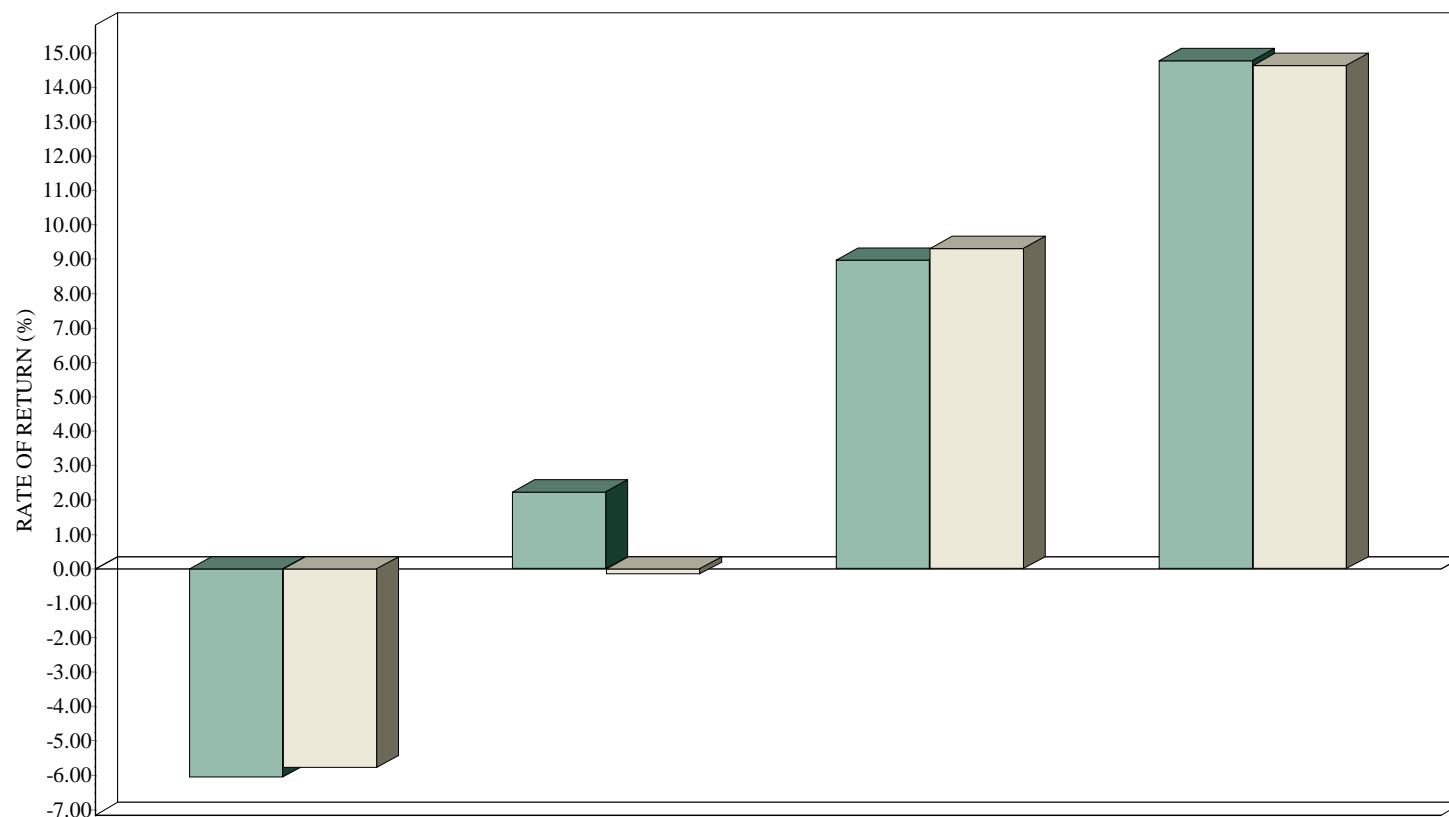
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
RETURN	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL STOCK EMP	-0.36	23	9.95	6	11.56	1	14.07	5
● POLICY INDEX	-1.24	47	6.54	44	8.61	28	11.83	27

PRINCIPAL STOCK EMPHASIS BALANCED
CAPITAL MARKET LINE - 5 YEARS



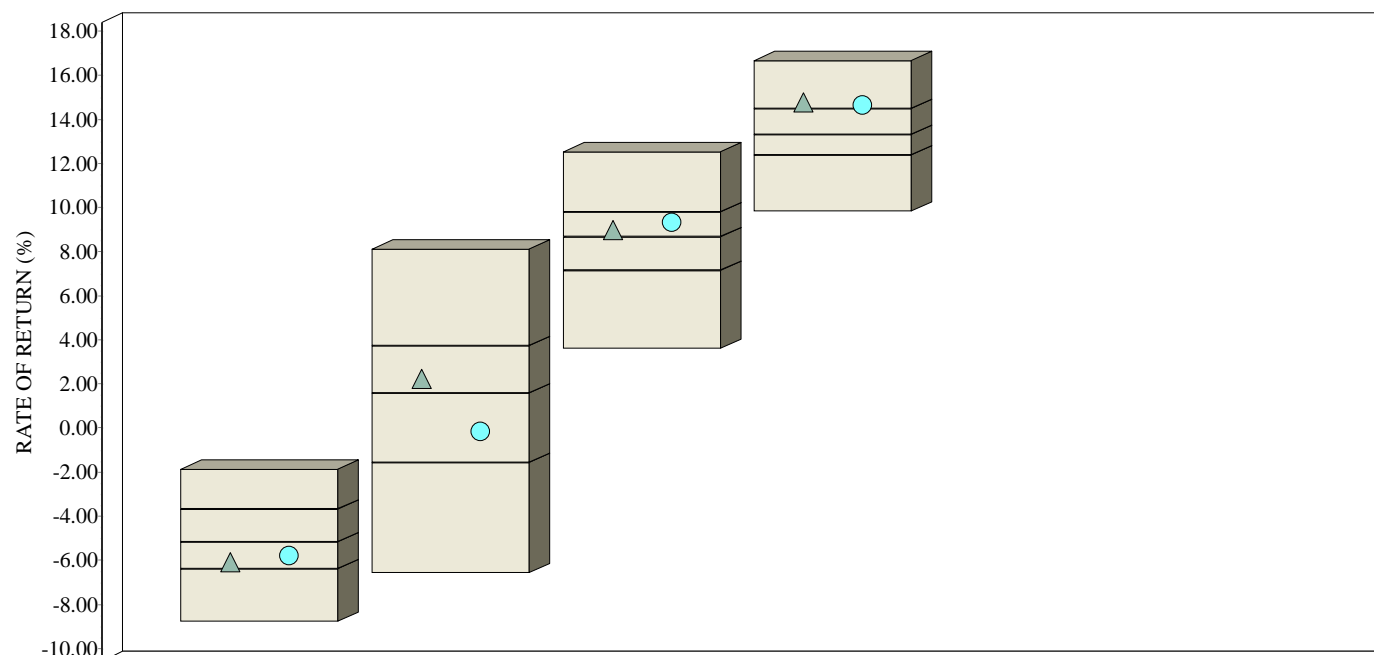
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	14.07	7.60	1.01	2.00	95.07
○ POLICY INDEX	11.83	7.33	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**VANGUARD WINDSOR II/INV
TIME-WEIGHTED RETURNS**



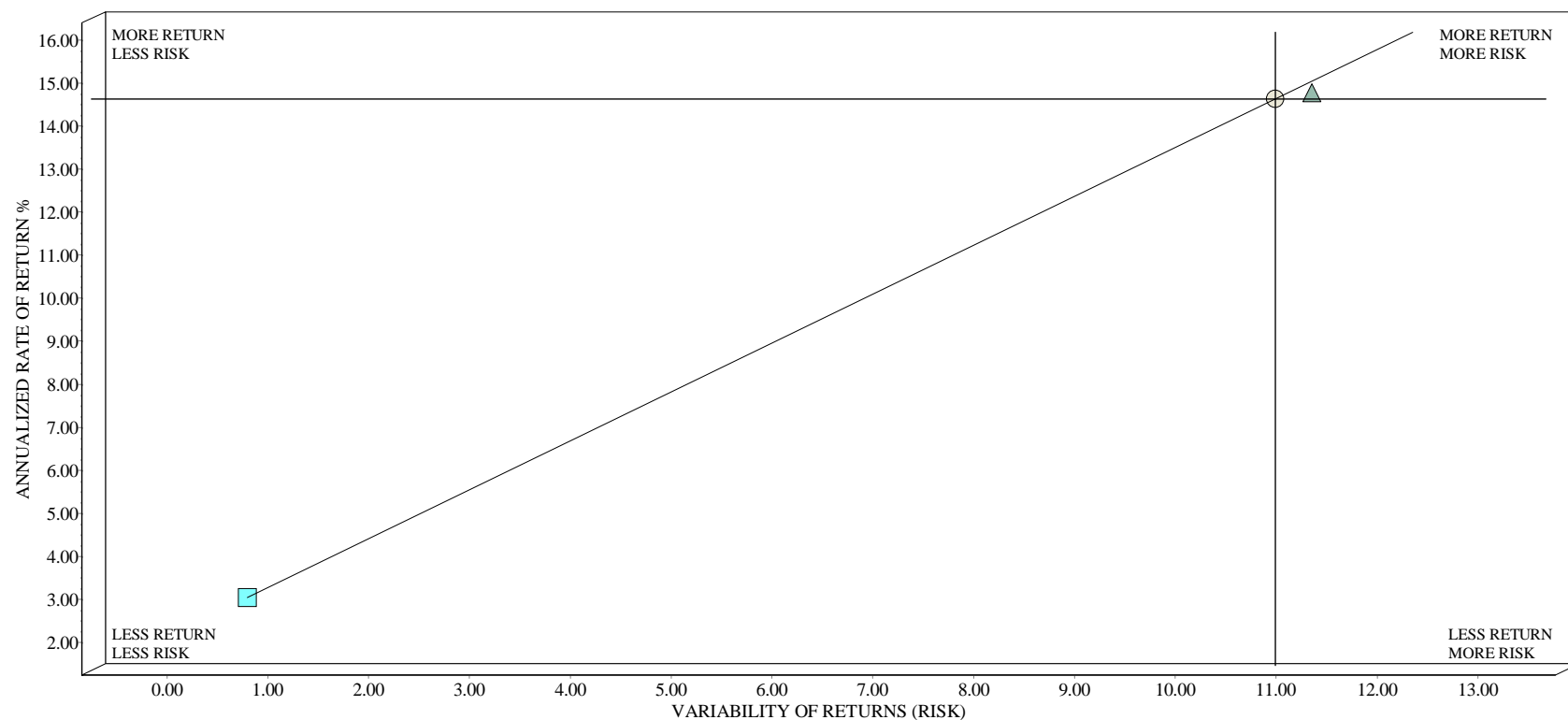
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
VANGUARD WINDSOR	-6.07	2.23	8.97	14.77
RUSSELL 1000 VALUE	-5.80	-0.17	9.32	14.62

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP VALUE MUTUAL FUND UNIVERSE



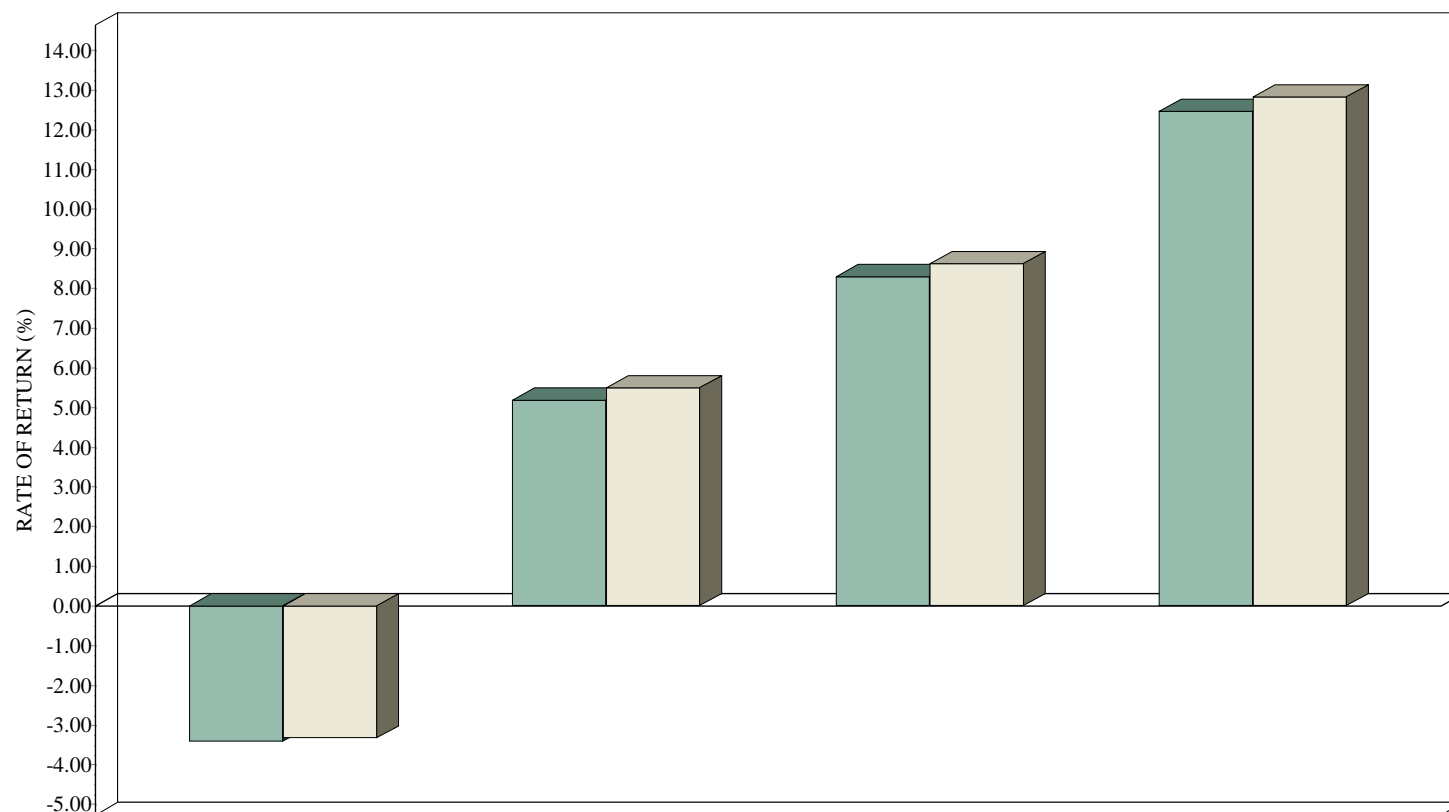
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE	-1.90		8.11		12.51		16.66	
FIRST QUARTILE	-3.70		3.73		9.77		14.47	
MEDIAN VALUE	-5.17		1.57		8.66		13.30	
THIRD QUARTILE	-6.39		-1.58		7.13		12.37	
LOWEST VALUE	-8.79		-6.58		3.59		9.83	
MEAN	-5.13		1.04		8.47		13.36	
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ VANGUARD WINDSOR	-6.07	71	2.23	44	8.97	41	14.77	17
● RUSSELL 1000 VALUE	-5.80	61	-0.17	62	9.32	33	14.62	19

VANGUARD WINDSOR II/INV
CAPITAL MARKET LINE - 5 YEARS



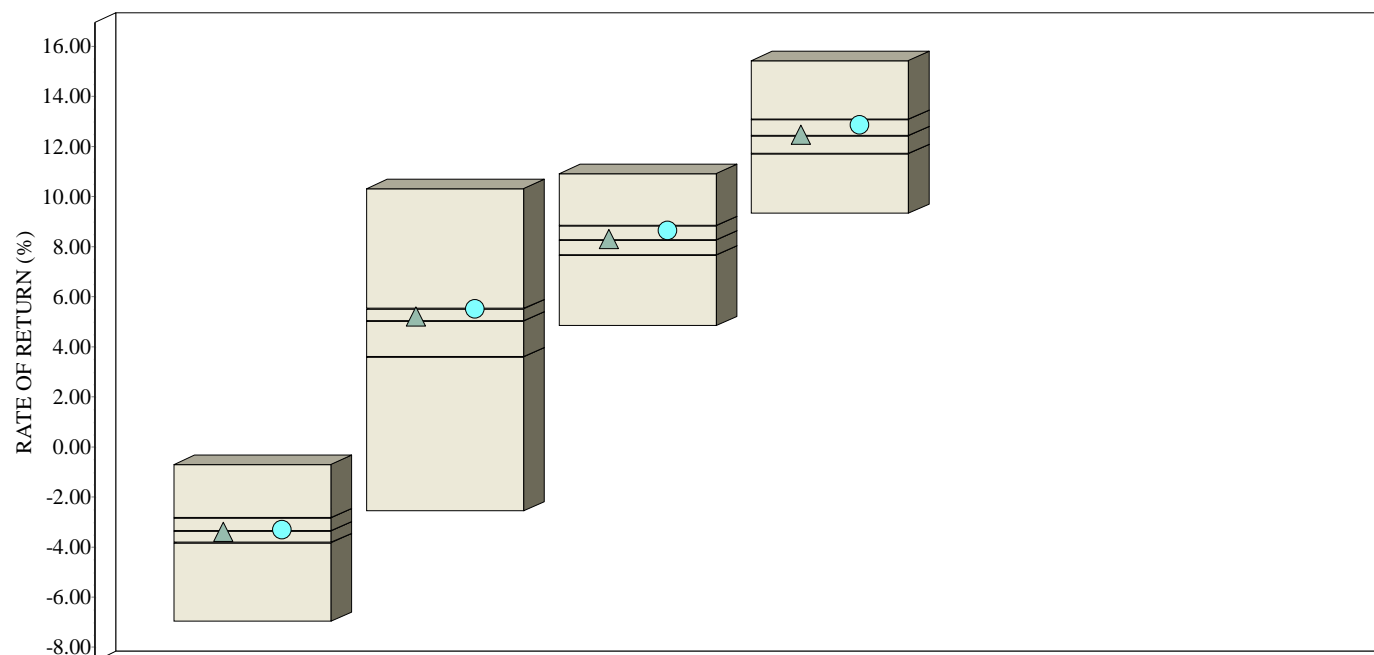
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	14.77	11.35	1.01	0.03	95.71
○ RUSSELL 1000 VALUE	14.62	10.99	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LARGE CAP STOCK INDEX
TIME-WEIGHTED RETURNS**



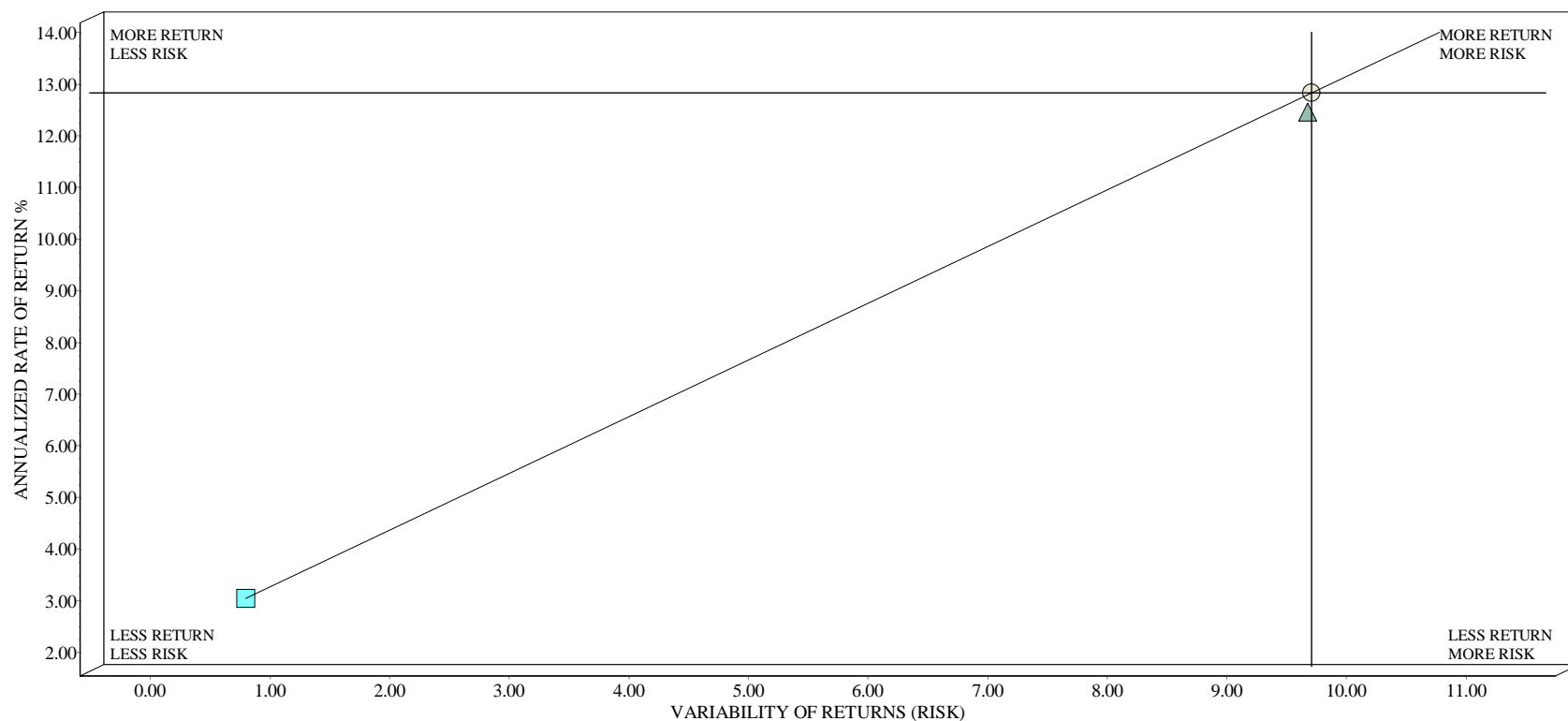
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CAP	-3.42	5.18	8.30	12.45
S&P 500	-3.33	5.49	8.62	12.83

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S. A. LARGE CAP BLEND MUTUAL FUND UNIVERSE



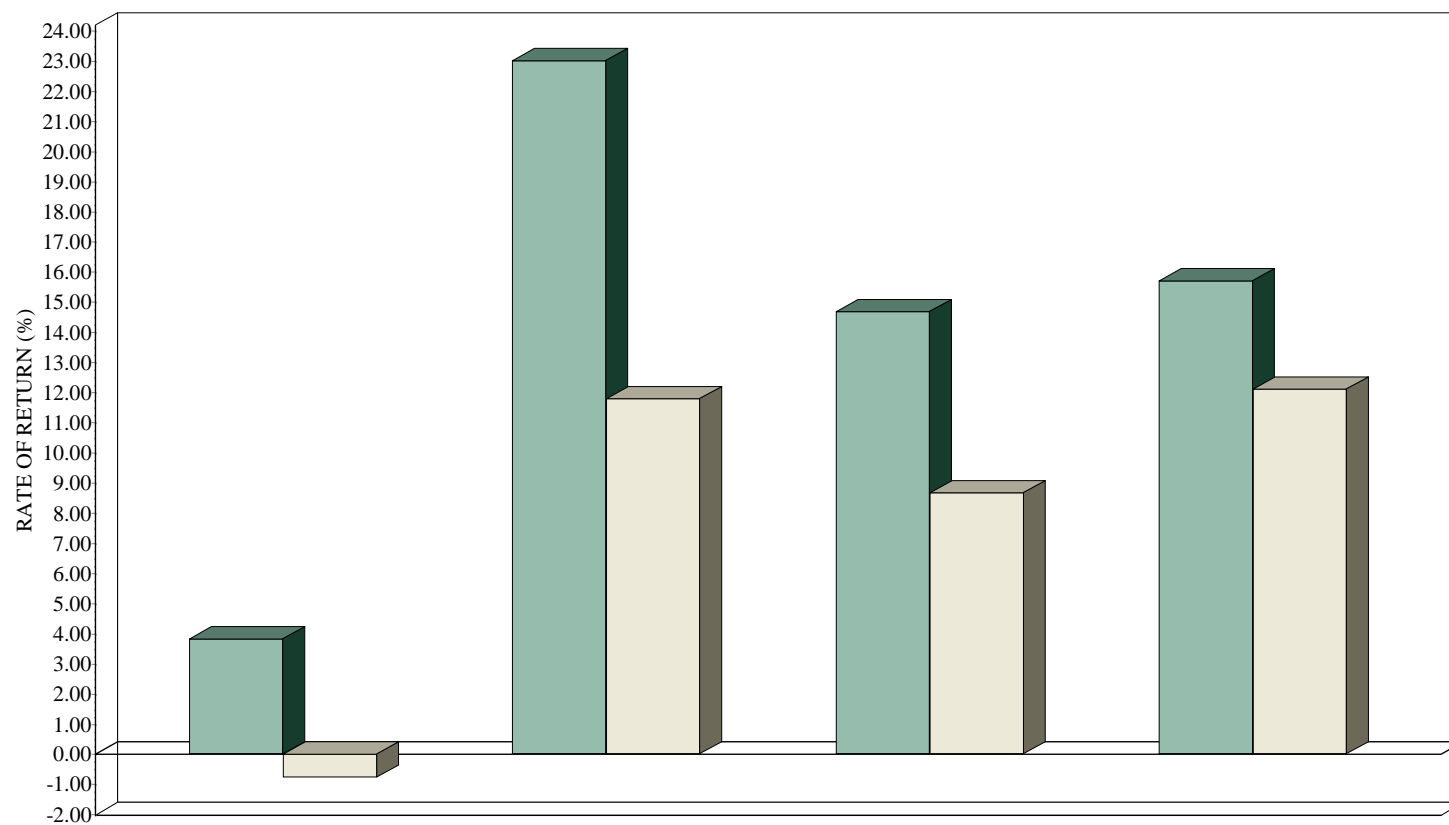
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
HIGHEST VALUE	-0.72		10.29		10.91		15.42	
FIRST QUARTILE	-2.87		5.49		8.80		13.07	
MEDIAN VALUE	-3.39		5.00		8.23		12.39	
THIRD QUARTILE	-3.85		3.57		7.63		11.70	
LOWEST VALUE	-7.00		-2.59		4.82		9.30	
MEAN	-3.47		4.60		8.10		12.33	
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL LARGE CAP	-3.42	54	5.18	40	8.30	45	12.45	46
● S&P 500	-3.33	40	5.49	24	8.62	29	12.83	28

PRINCIPAL LARGE CAP STOCK INDEX
CAPITAL MARKET LINE - 5 YEARS



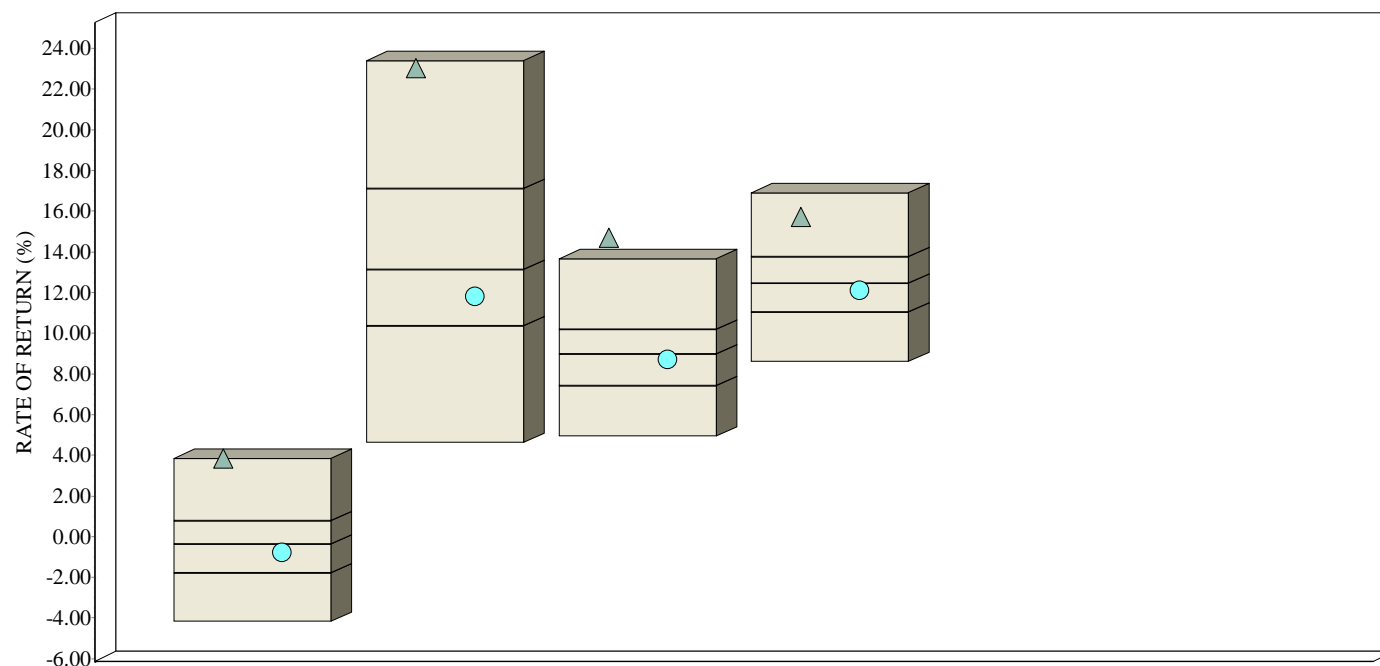
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	12.45	9.68	1.00	-0.31	100.00
○ S&P 500	12.83	9.71	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LARGE COMPANY GROWTH
TIME-WEIGHTED RETURNS**



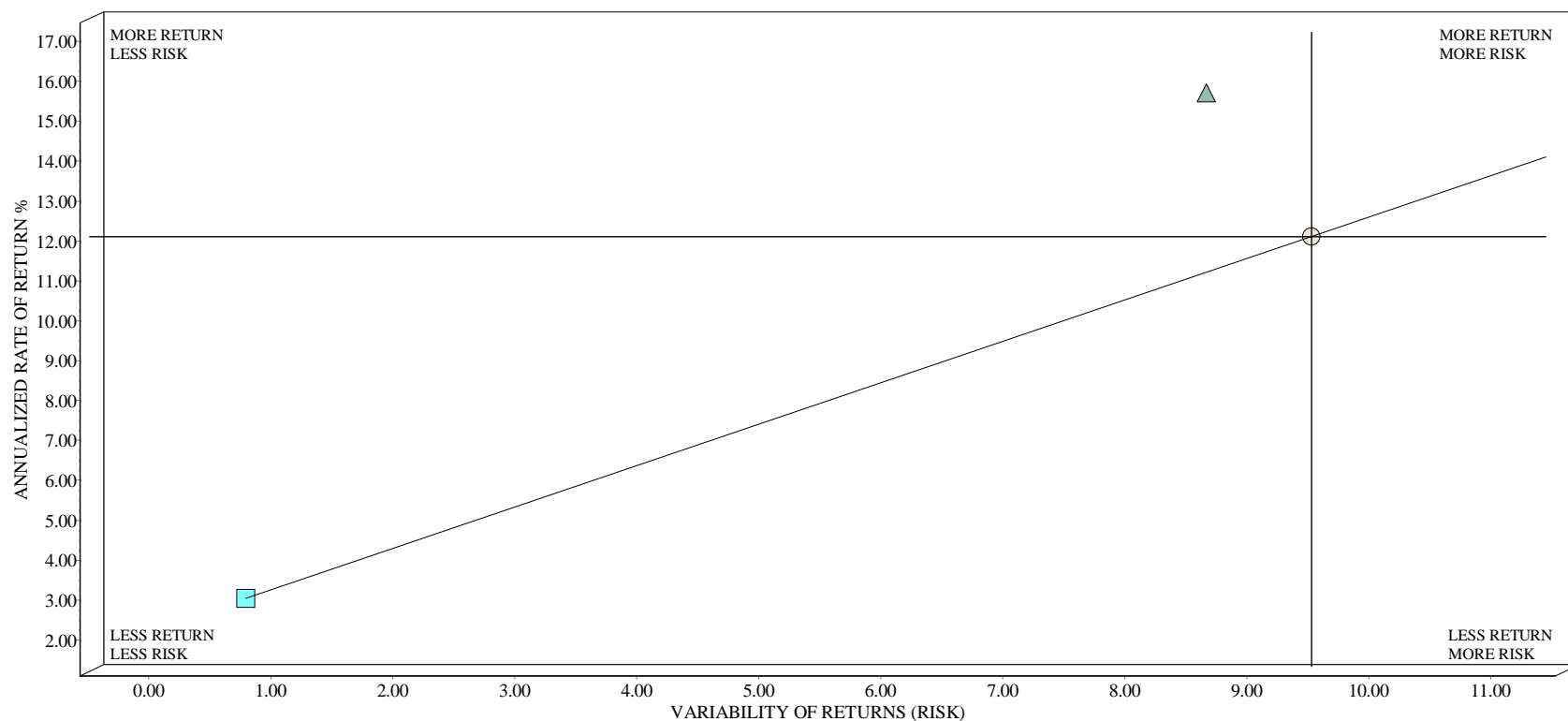
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CO	3.83	23.01	14.69	15.71
RUSSELL 1000 GROWTH	-0.77	11.81	8.68	12.11

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP GROWTH MUTUAL FUND UNIVERSE



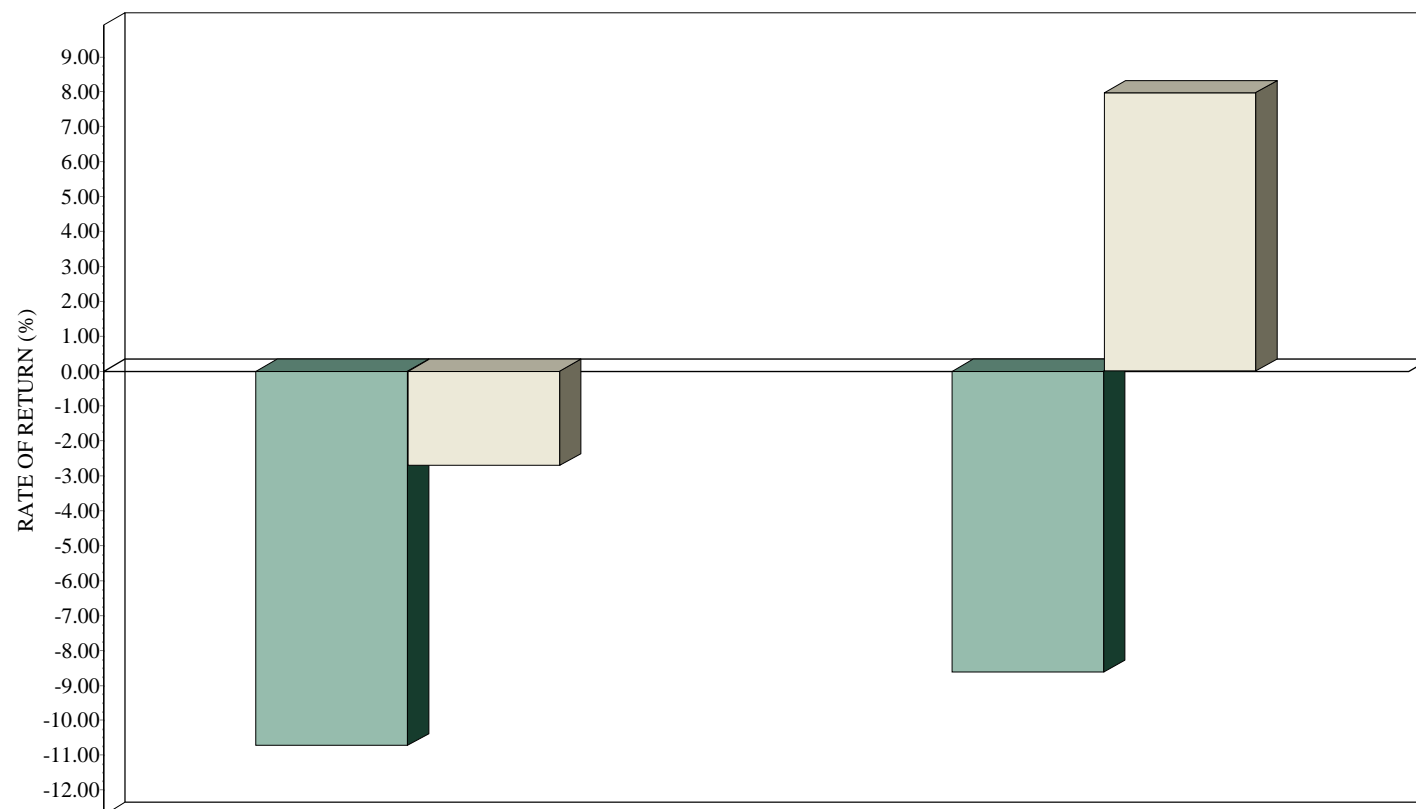
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE	3.83		23.40		13.66		16.89	
FIRST QUARTILE	0.78		17.09		10.18		13.74	
MEDIAN VALUE	-0.38		13.10		8.97		12.45	
THIRD QUARTILE	-1.79		10.34		7.42		11.02	
LOWEST VALUE	-4.19		4.63		4.93		8.58	
MEAN	-0.41		13.47		8.85		12.48	
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL LARGE CO	3.83	1	23.01	1	14.69	1	15.71	5
● RUSSELL 1000 GROWTH	-0.77	60	11.81	64	8.68	55	12.11	56

PRINCIPAL LARGE COMPANY GROWTH
CAPITAL MARKET LINE - 5 YEARS



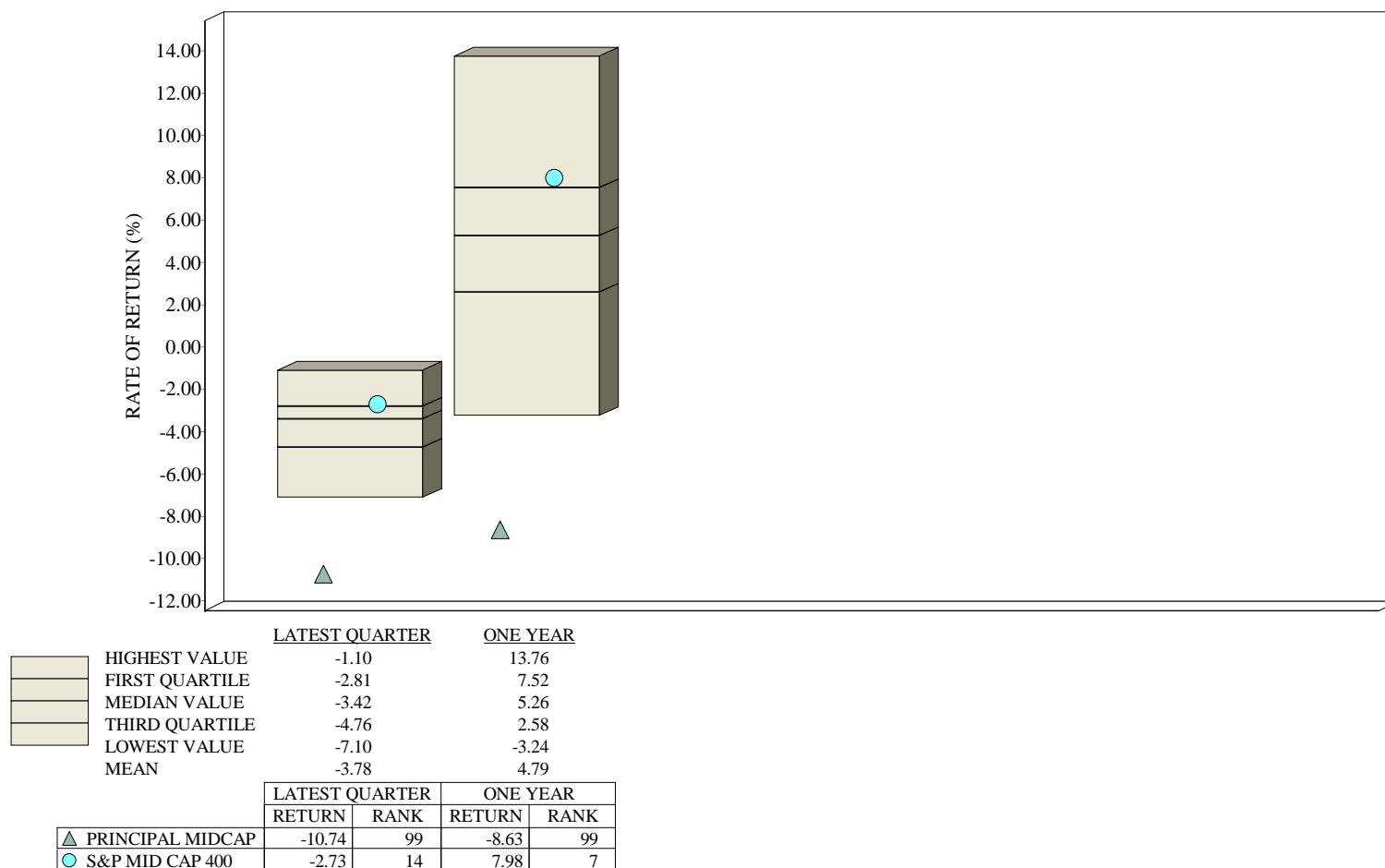
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	15.71	8.67	0.79	5.07	76.88
○ RUSSELL 1000 GROWTH	12.11	9.53	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL MIDCAP STOCK FUND
TIME-WEIGHTED RETURNS**

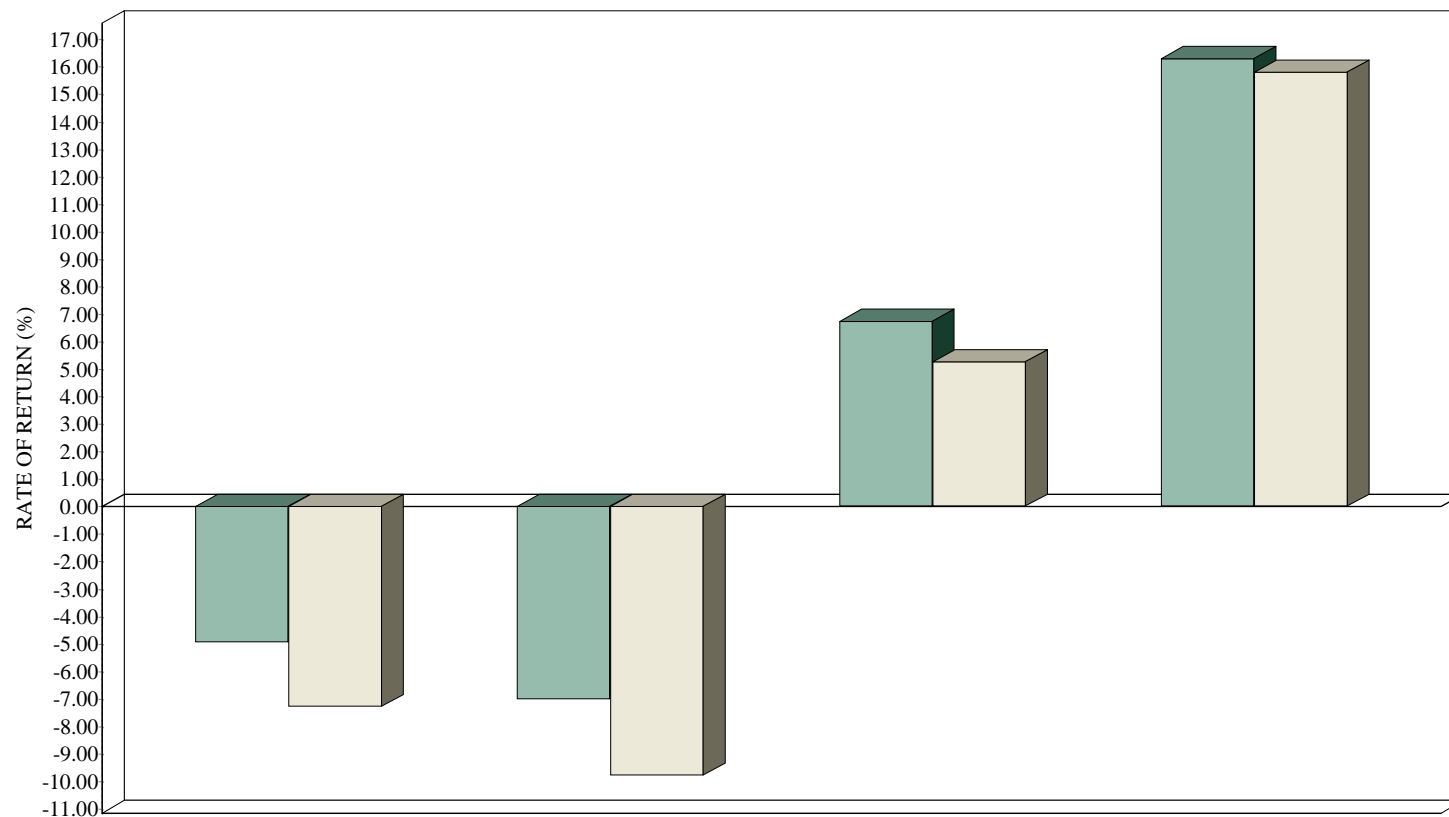


	LATEST QUARTER	ONE YEAR
TOTAL FUND	-10.74	-8.63
S&P MID CAP 400	-2.73	7.98

**QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. MID CAP BLEND MUTUAL FUND UNIVERSE**

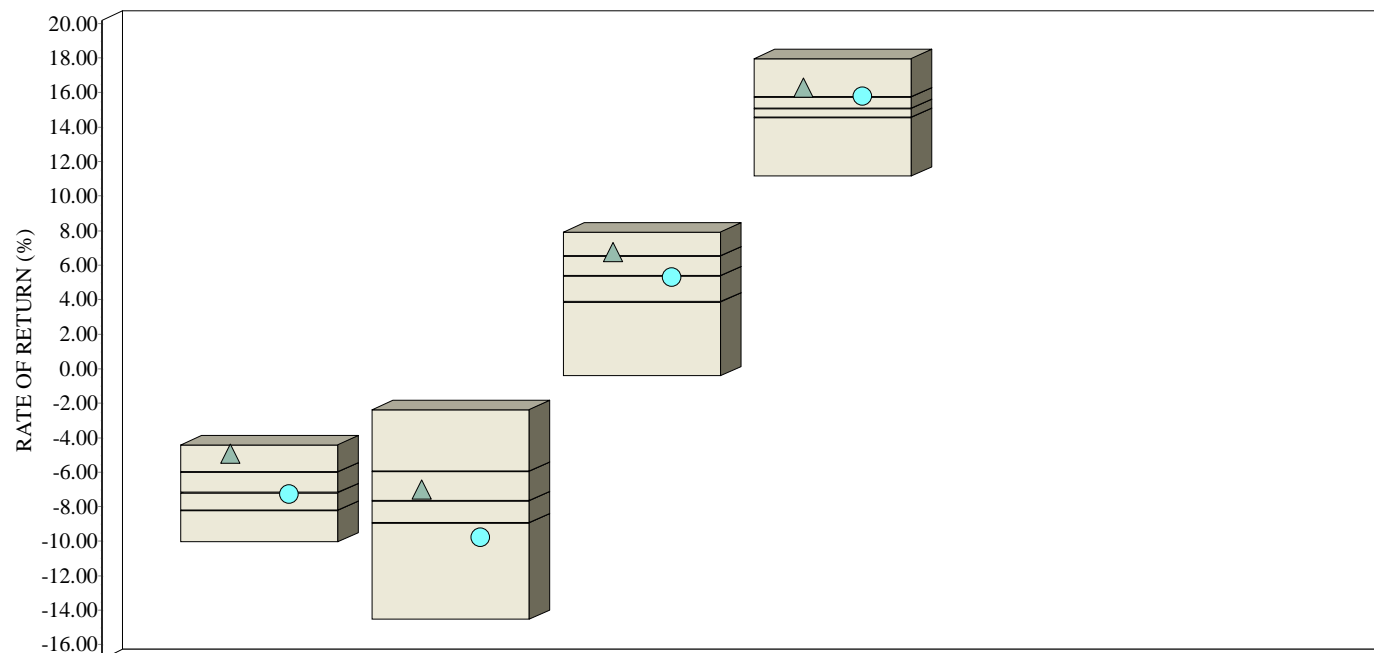


**PRINCIPAL SMALL COMPANY VALUE
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL SMALL CO	-4.94	-7.00	6.74	16.30
RUSSELL 2000 VALUE	-7.28	-9.78	5.27	15.80

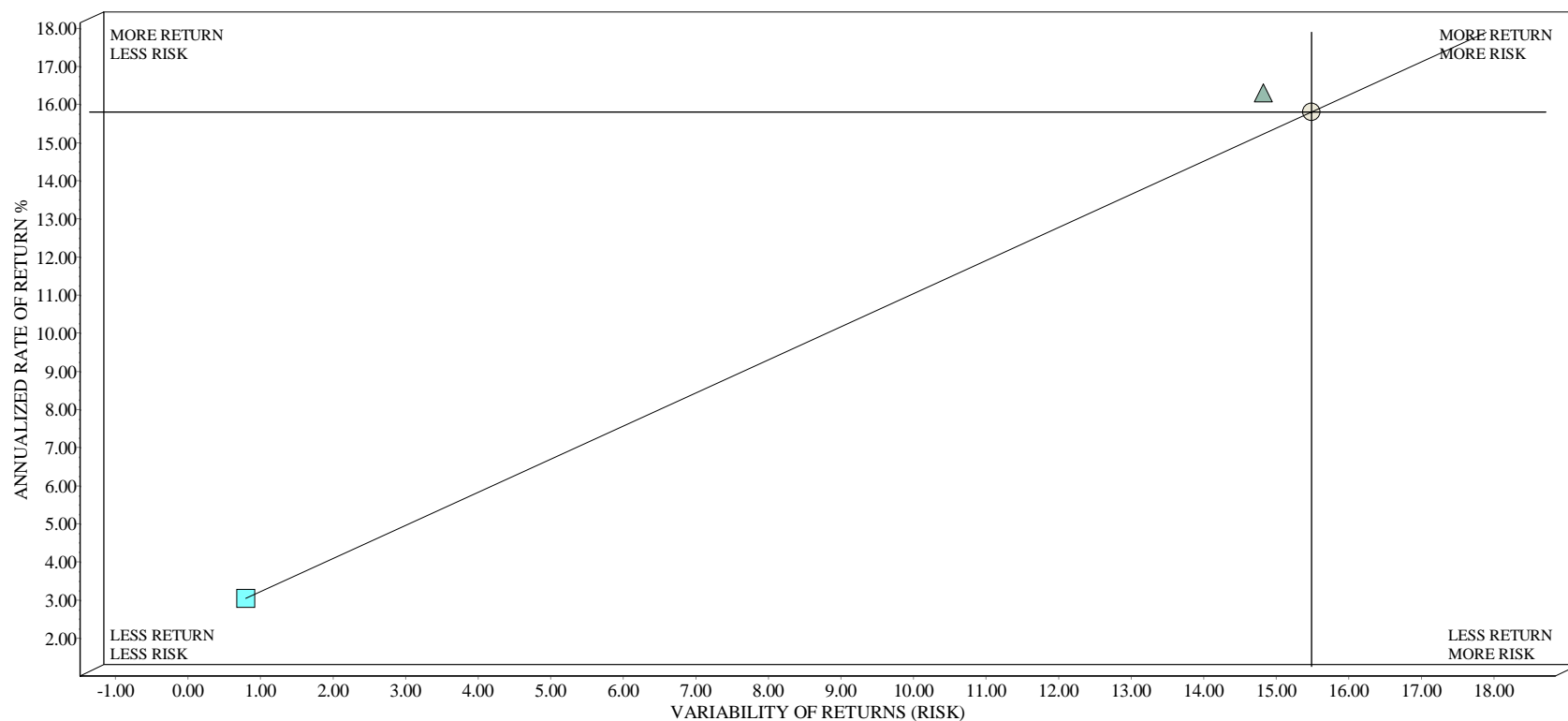
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP VALUE MUTUAL FUND UNIVERSE



	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		-4.43		-2.37		7.90		17.97
FIRST QUARTILE		-6.01		-5.98		6.50		15.73
MEDIAN VALUE		-7.21		-7.68		5.35		15.08
THIRD QUARTILE		-8.22		-8.93		3.84		14.56
LOWEST VALUE		-10.05		-14.56		-0.43		11.15
MEAN		-7.20		-7.49		4.90		14.92

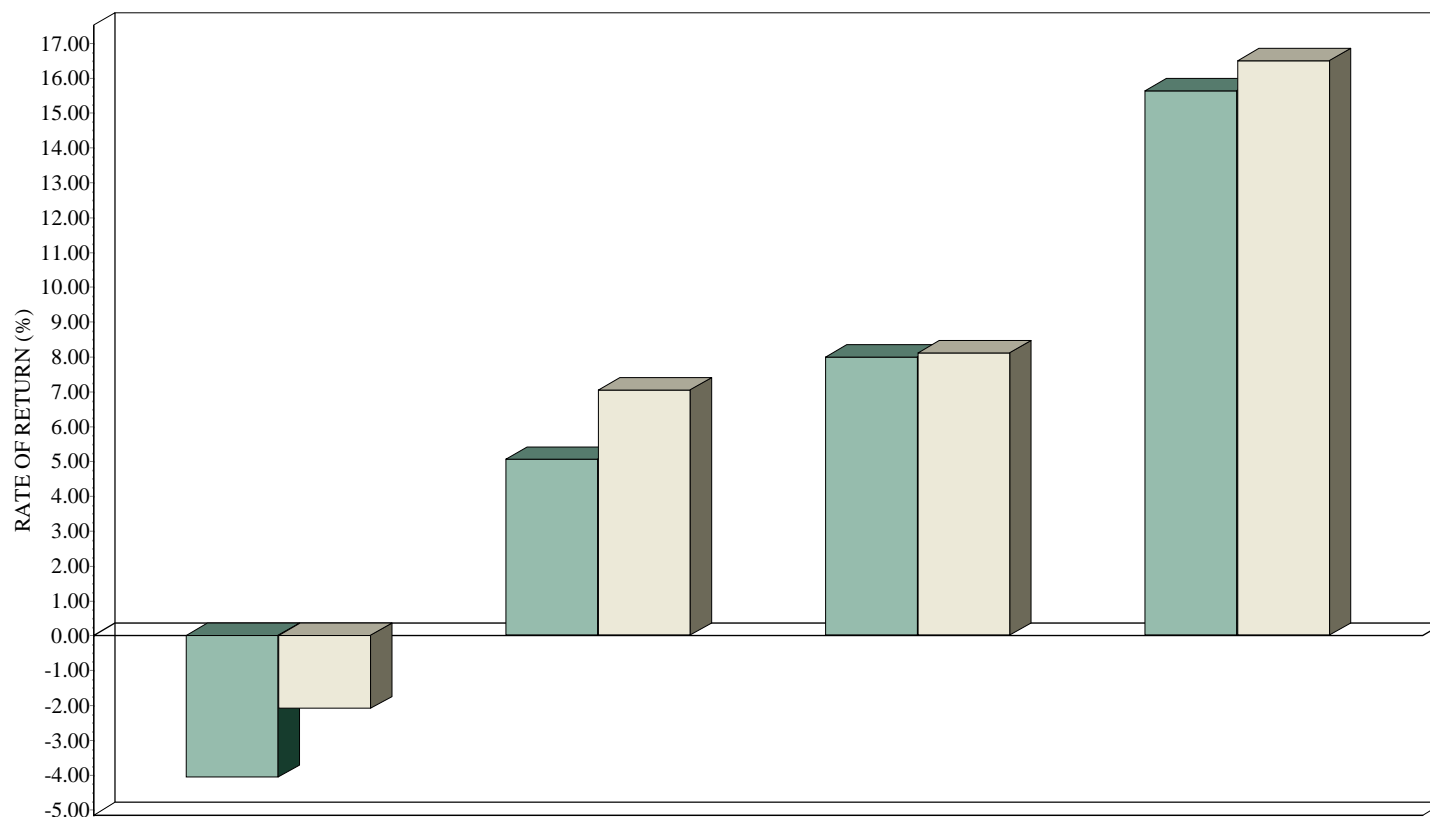
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
PRINCIPAL SMALL CO	-4.94	5	-7.00	36	6.74	21	16.30	8
RUSSELL 2000 VALUE	-7.28	52	-9.78	83	5.27	51	15.80	21

PRINCIPAL SMALL COMPANY VALUE
CAPITAL MARKET LINE - 5 YEARS



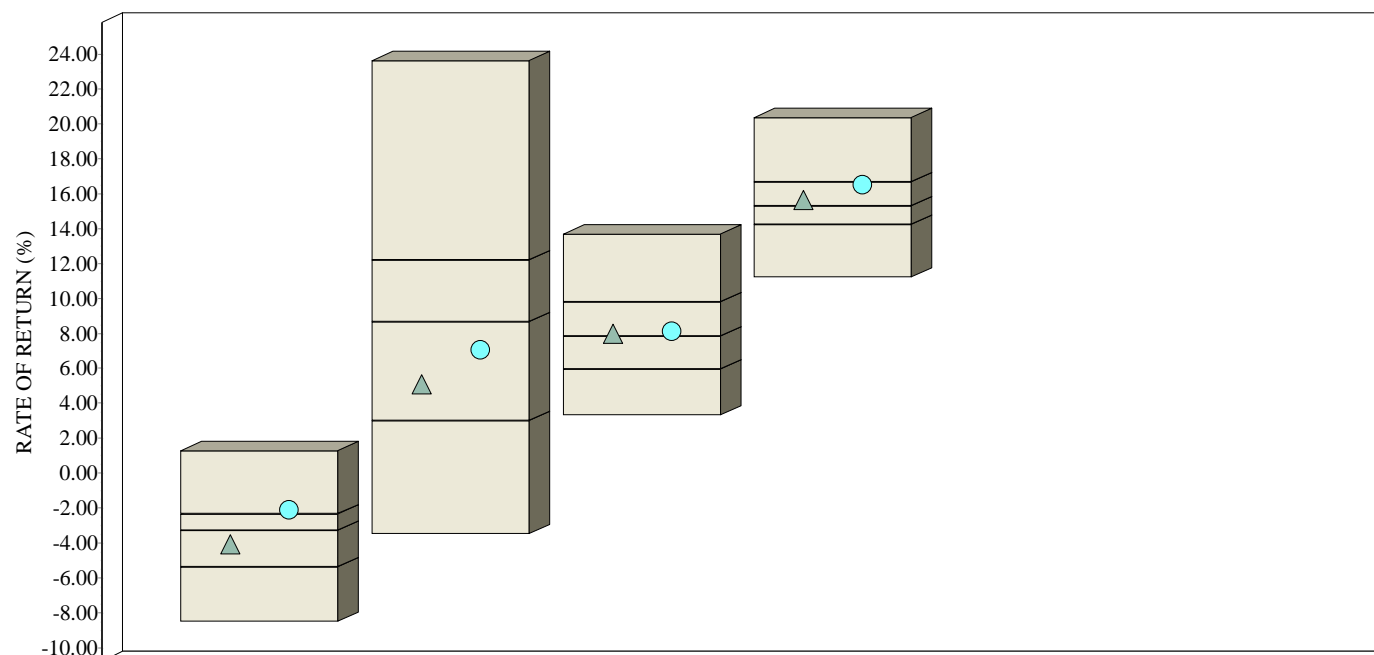
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	16.30	14.82	0.94	1.13	96.15
○ RUSSELL 2000 VALUE	15.80	15.48	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**VANGUARD EXPLORER
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
VANGUARD EXPLORER	-4.07	5.06	8.00	15.63
RUSSELL 2000 GROWTH	-2.10	7.05	8.12	16.50

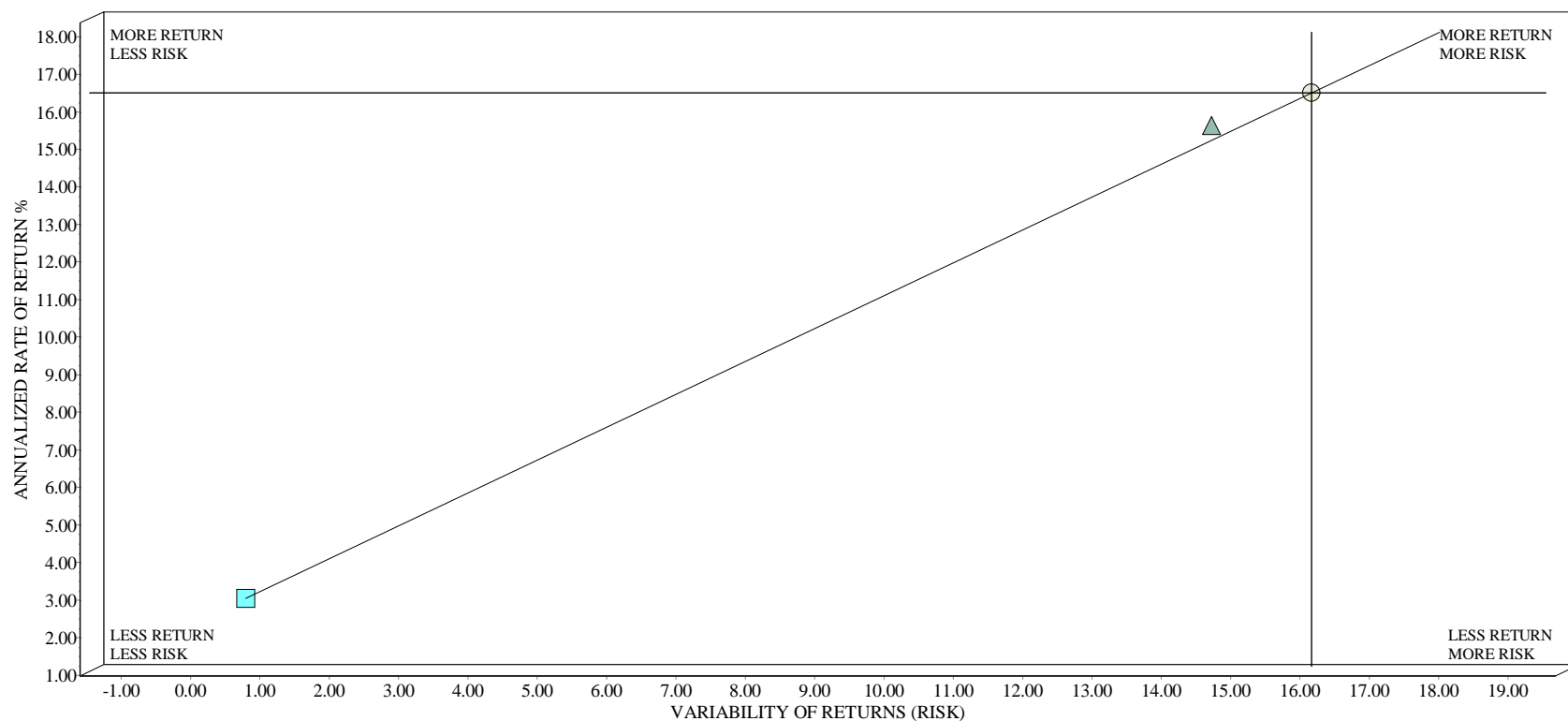
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP GROWTH MUTUAL FUND UNIVERSE



	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		1.28		23.63		13.68		20.37
FIRST QUARTILE		-2.36		12.20		9.79		16.66
MEDIAN VALUE		-3.28		8.66		7.81		15.28
THIRD QUARTILE		-5.37		2.99		5.96		14.23
LOWEST VALUE		-8.53		-3.50		3.30		11.21
MEAN		-3.66		7.67		7.89		15.46

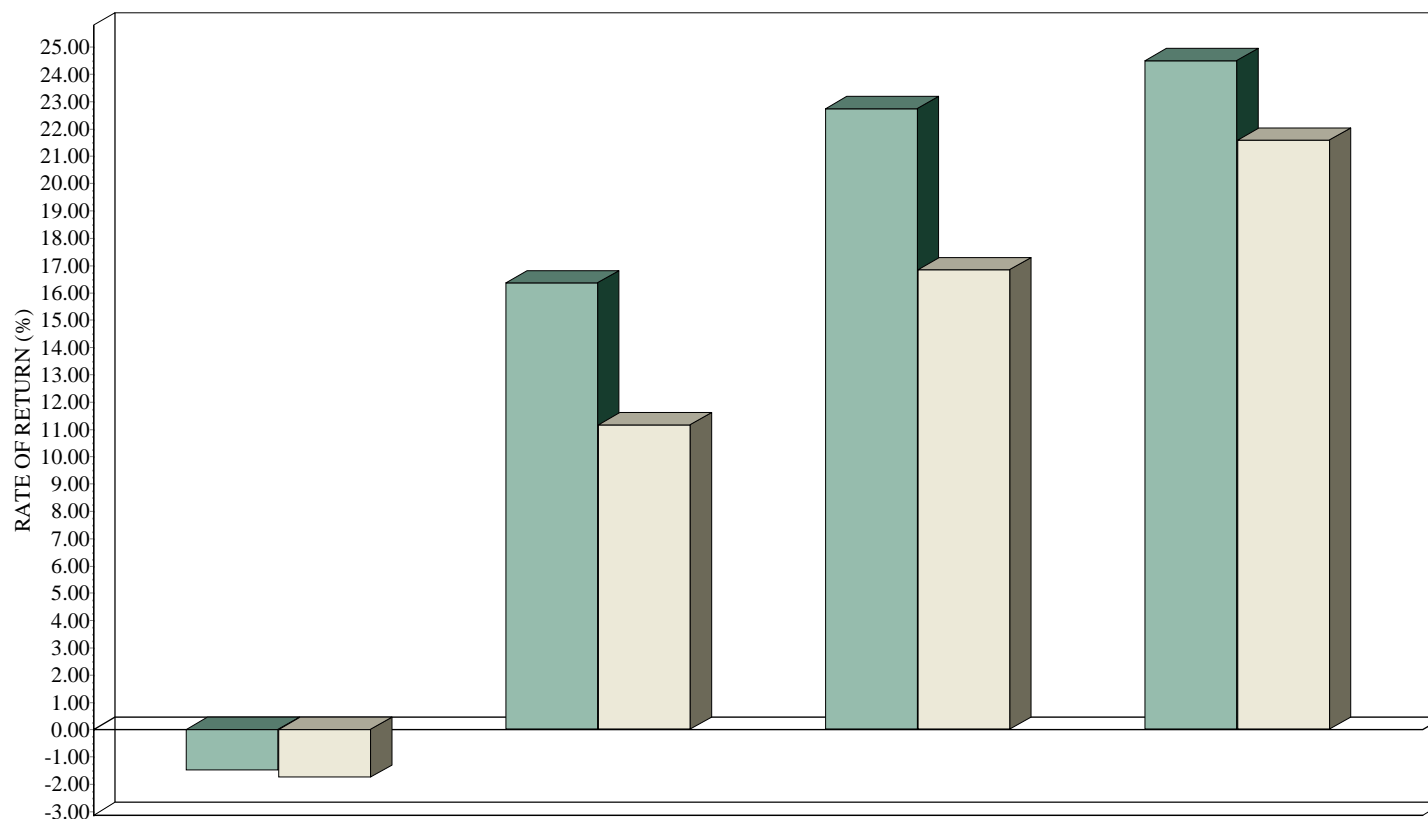
	LATEST QUARTER		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ VANGUARD EXPLORER	-4.07	61	5.06	65	8.00	46	15.63	42
● RUSSELL 2000 GROWTH	-2.10	22	7.05	58	8.12	45	16.50	27

VANGUARD EXPLORER
CAPITAL MARKET LINE - 5 YEARS



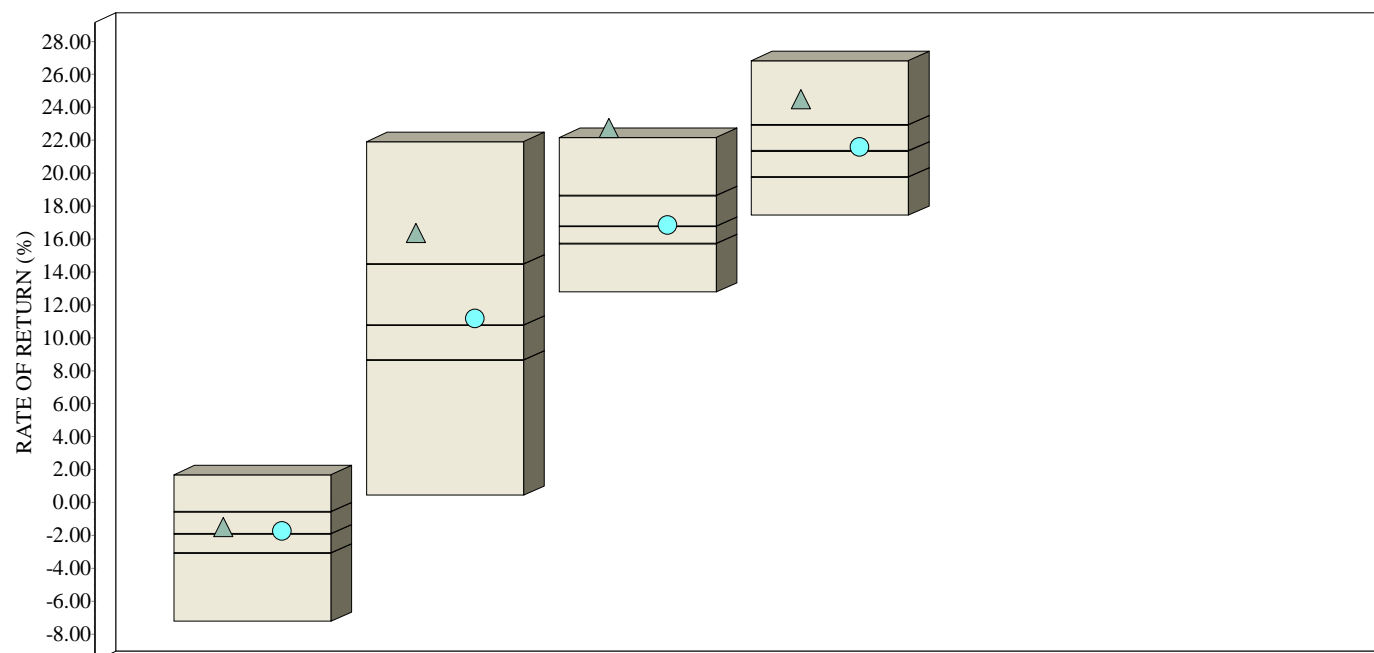
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	15.63	14.72	0.90	0.37	97.49
● RUSSELL 2000 GROWTH	16.50	16.16	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL INTERNATIONAL STOCK
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL INTL STOCK	-1.50	16.36	22.74	24.50
MSCI NET EAFE	-1.75	11.17	16.83	21.59

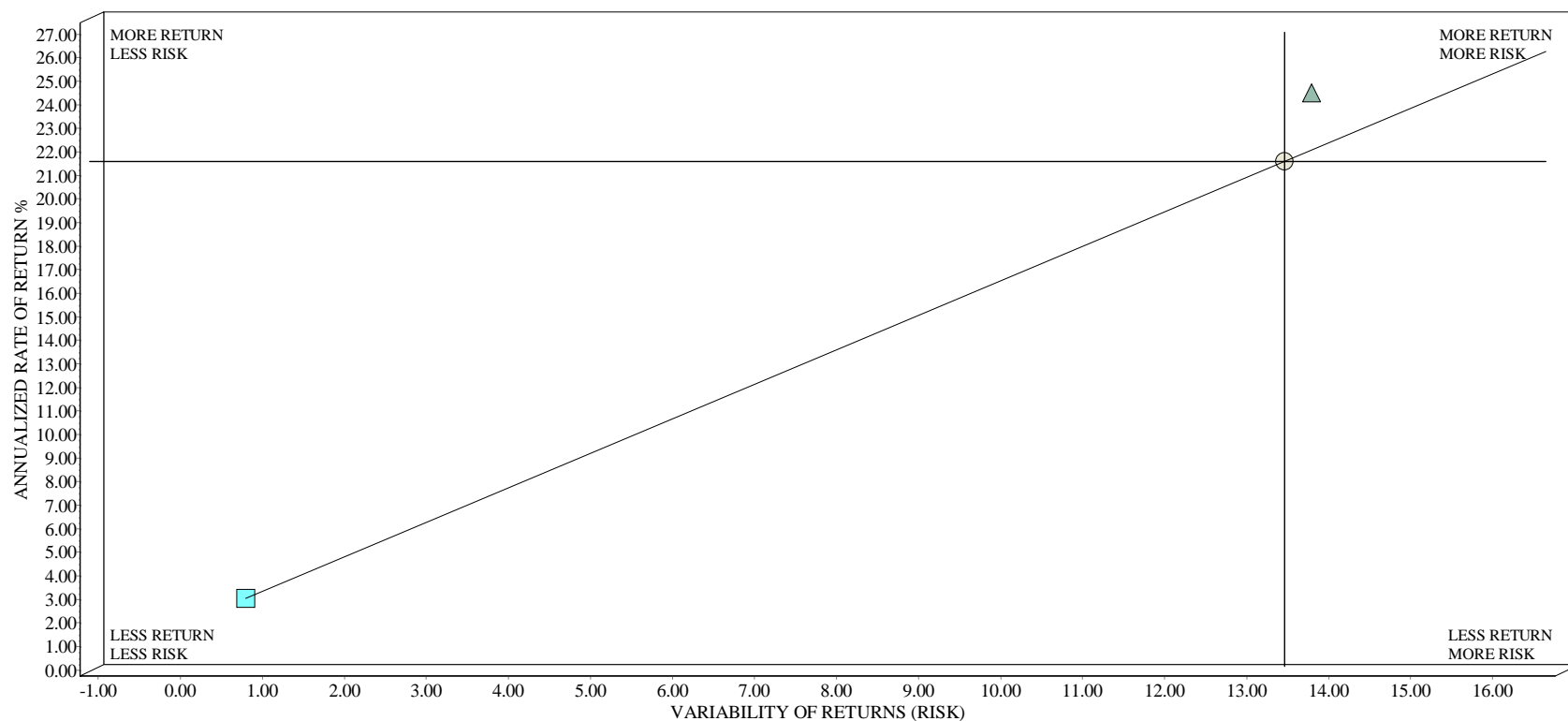
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. FOREIGN EQUITY MUTUAL FUND UNIVERSE



	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
HIGHEST VALUE		1.68		21.91		22.16		26.84
FIRST QUARTILE		-0.59		14.47		18.63		22.90
MEDIAN VALUE		-1.92		10.77		16.75		21.35
THIRD QUARTILE		-3.10		8.64		15.70		19.77
LOWEST VALUE		-7.26		0.43		12.75		17.43
MEAN		-2.00		11.32		17.07		21.45

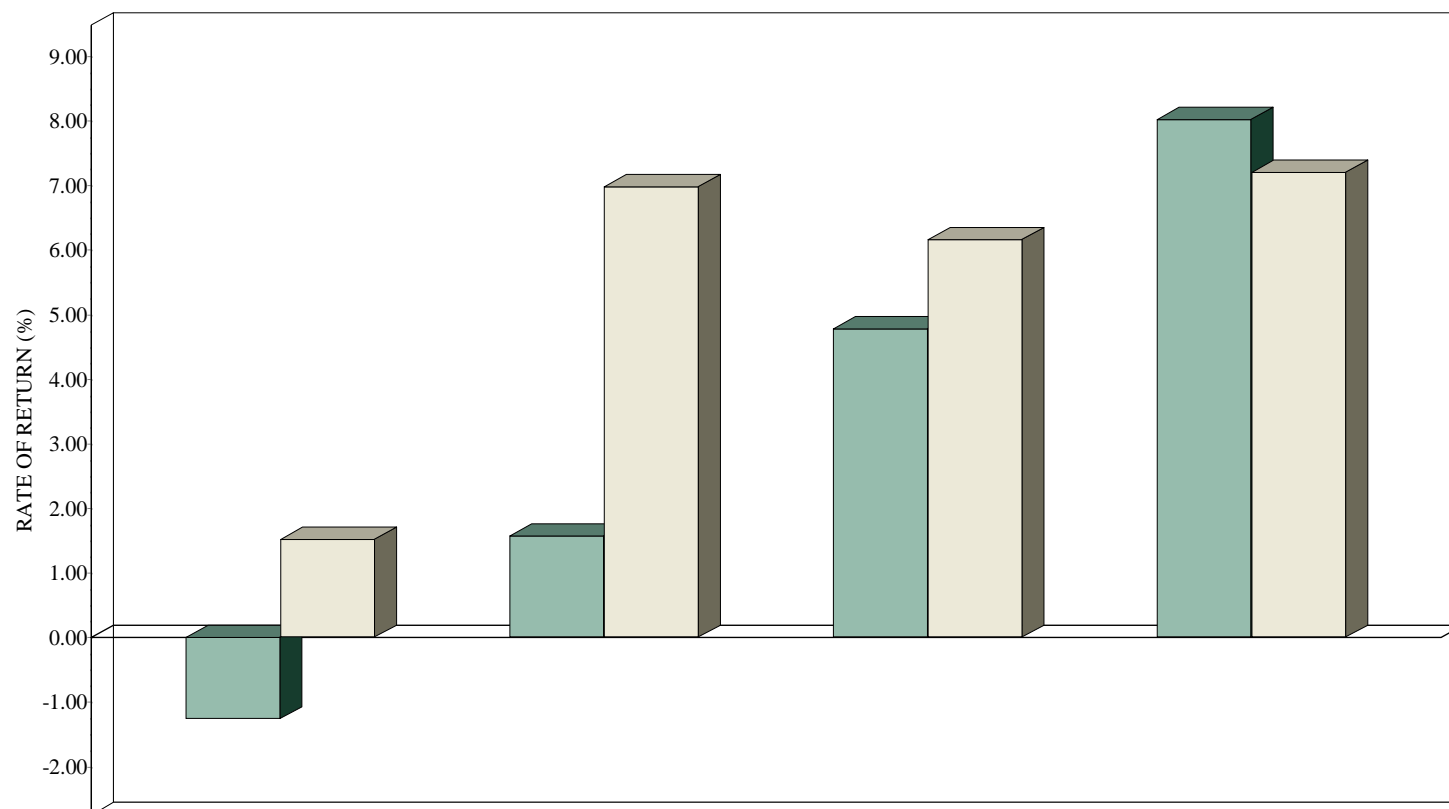
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL INTL STOCK	-1.50	39	16.36	14	22.74	1	24.50	11
● MSCI NET EAFE	-1.75	45	11.17	42	16.83	47	21.59	44

PRINCIPAL INTERNATIONAL STOCK
CAPITAL MARKET LINE - 5 YEARS



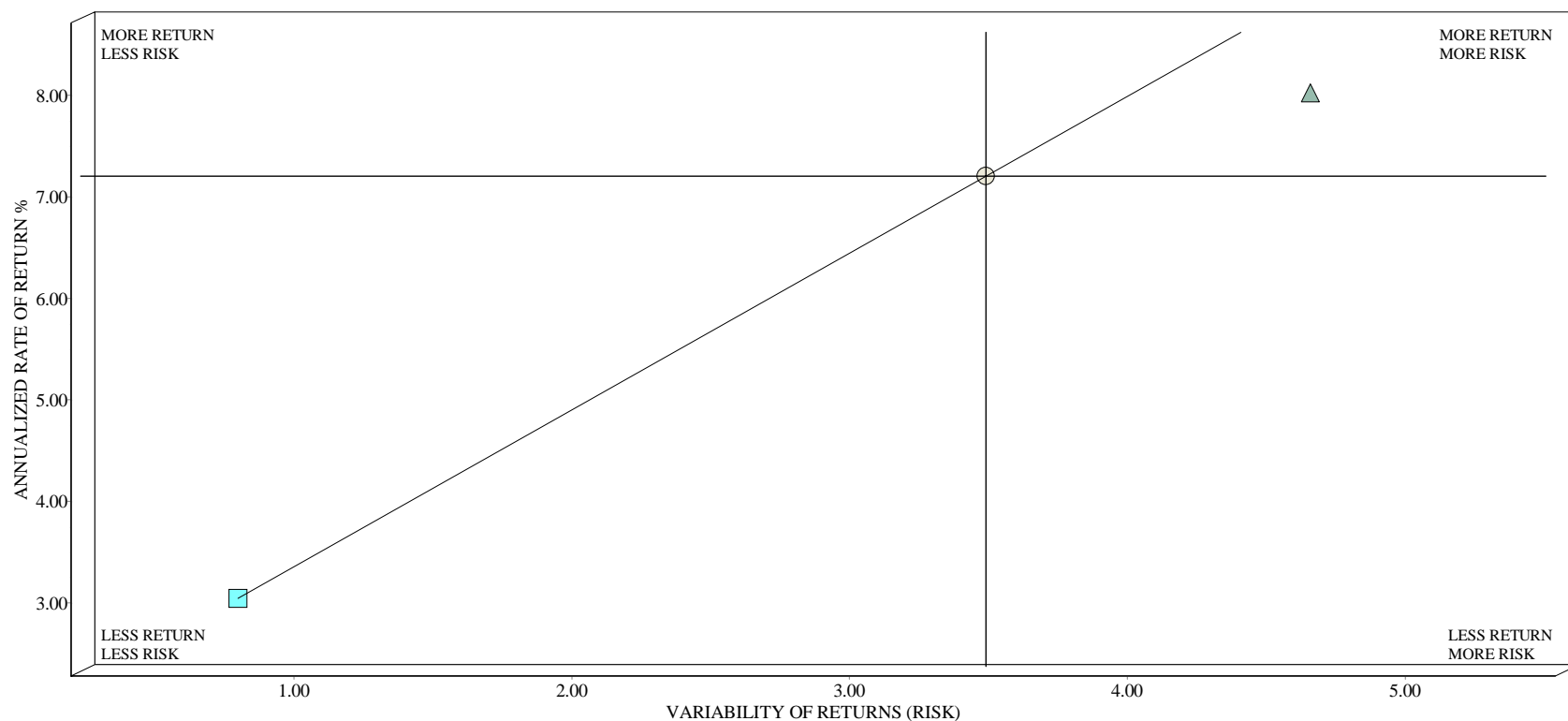
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	24.50	13.79	0.98	2.81	93.49
○ MSCI NET EAFE	21.59	13.47	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME STRATEGIC INCOME
TIME-WEIGHTED RETURNS**



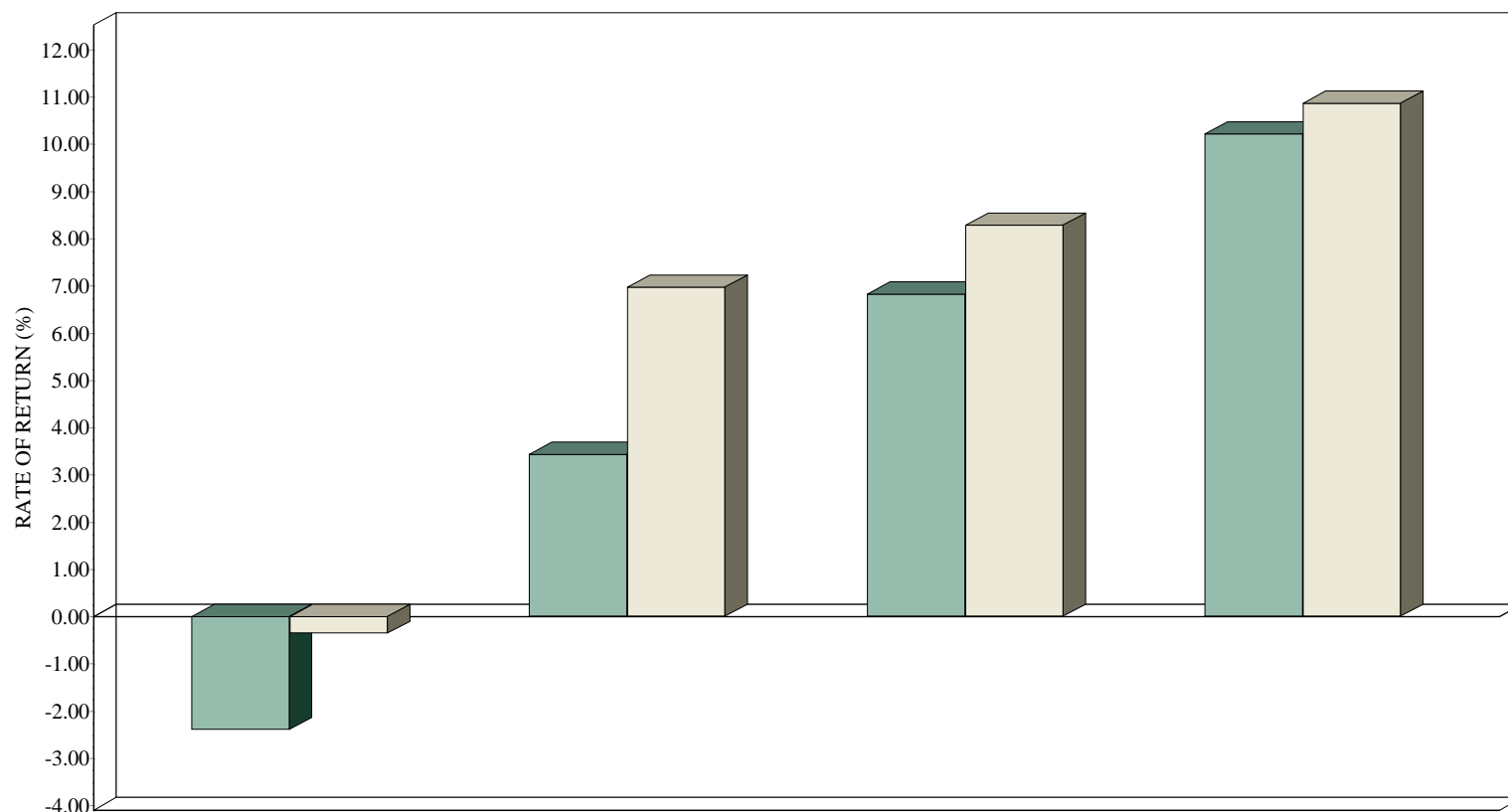
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME STRATEGIC	-1.26	1.58	4.78	8.02
POLICY INDEX	1.52	6.98	6.16	7.20

PRINCIPAL LIFETIME STRATEGIC INCOME
CAPITAL MARKET LINE - 5 YEARS



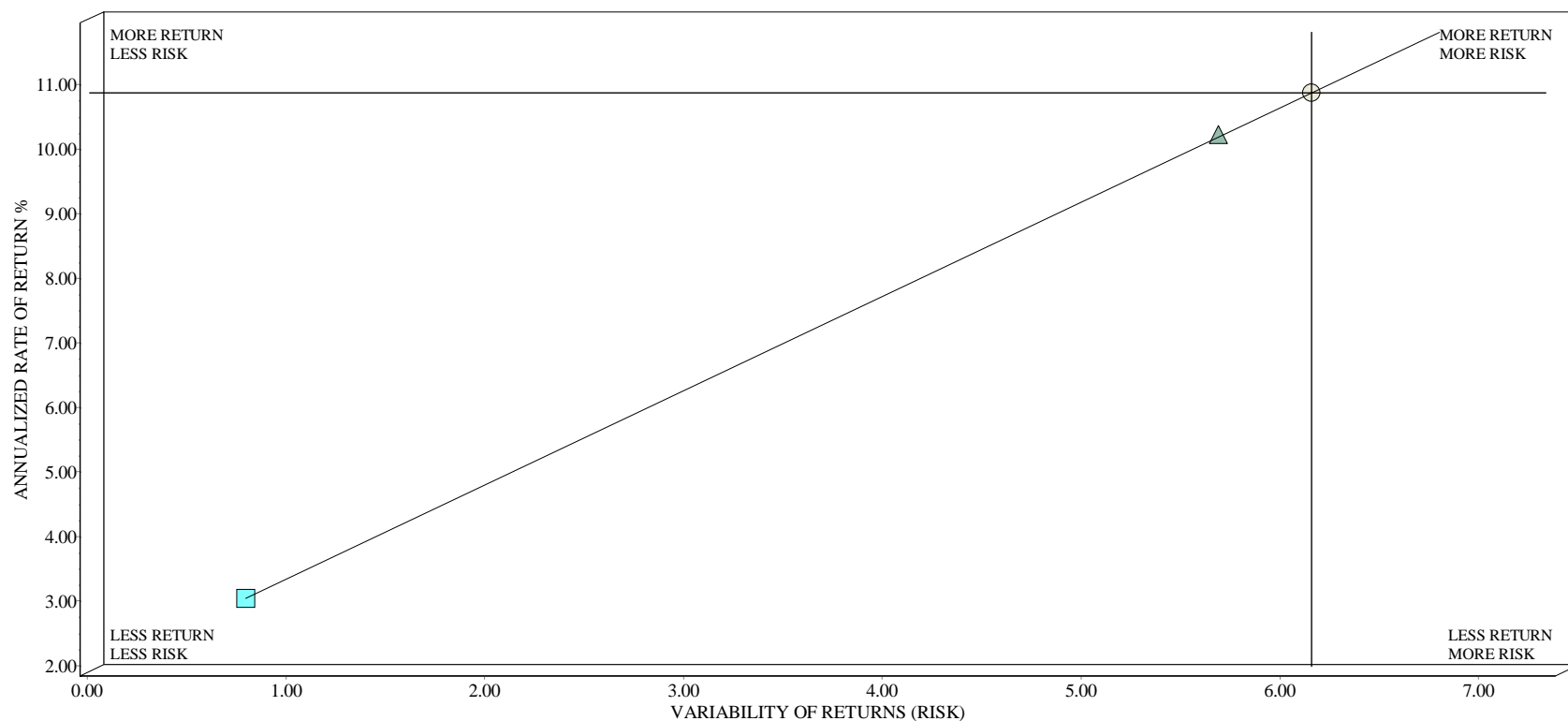
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	8.02	4.66	1.24	-0.14	82.46
○ POLICY INDEX	7.20	3.49	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2010
TIME-WEIGHTED RETURNS**



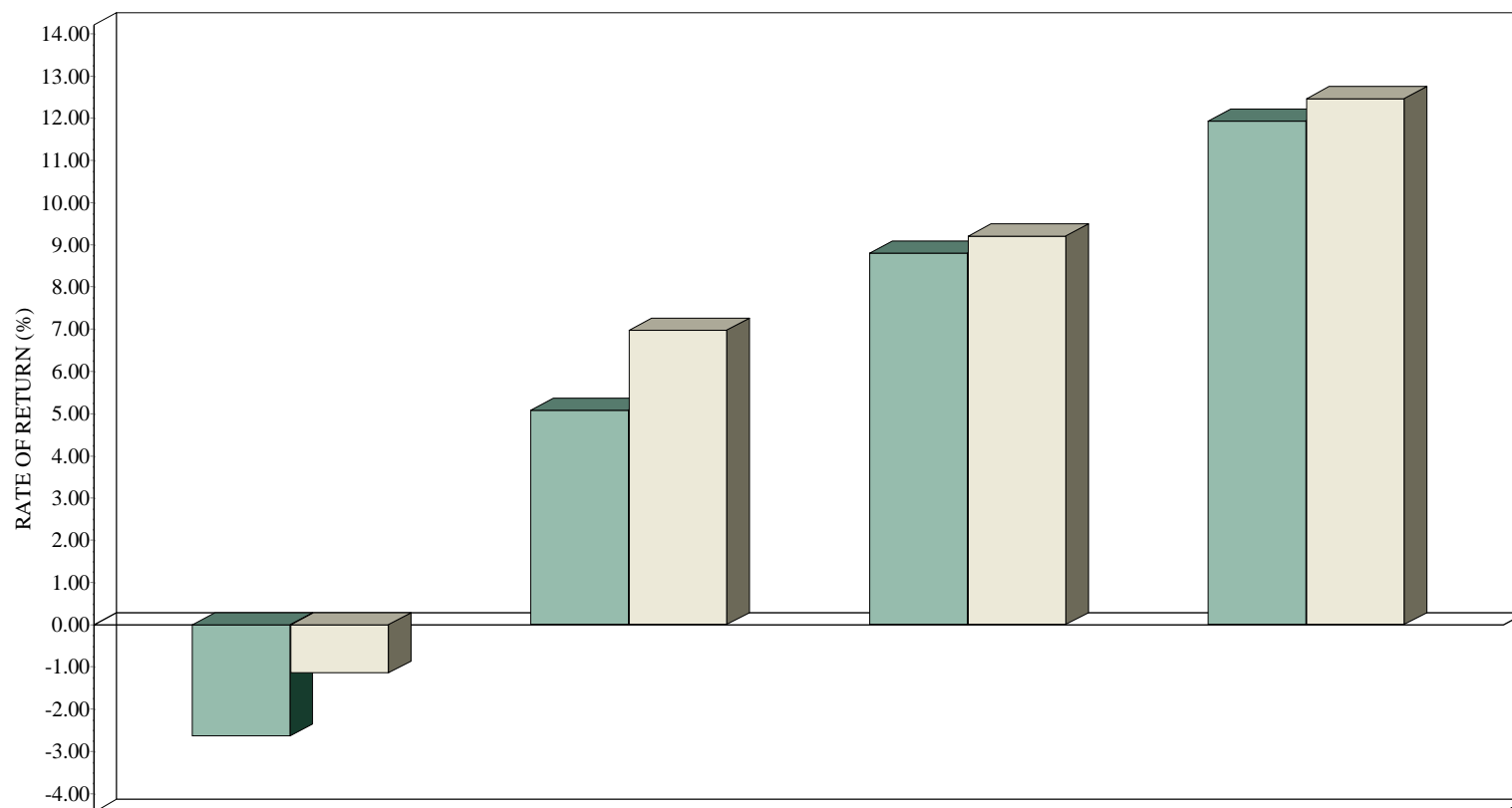
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME 2010	-2.40	3.45	6.84	10.23
POLICY INDEX	-0.36	6.98	8.29	10.87

PRINCIPAL LIFETIME 2010
CAPITAL MARKET LINE - 5 YEARS



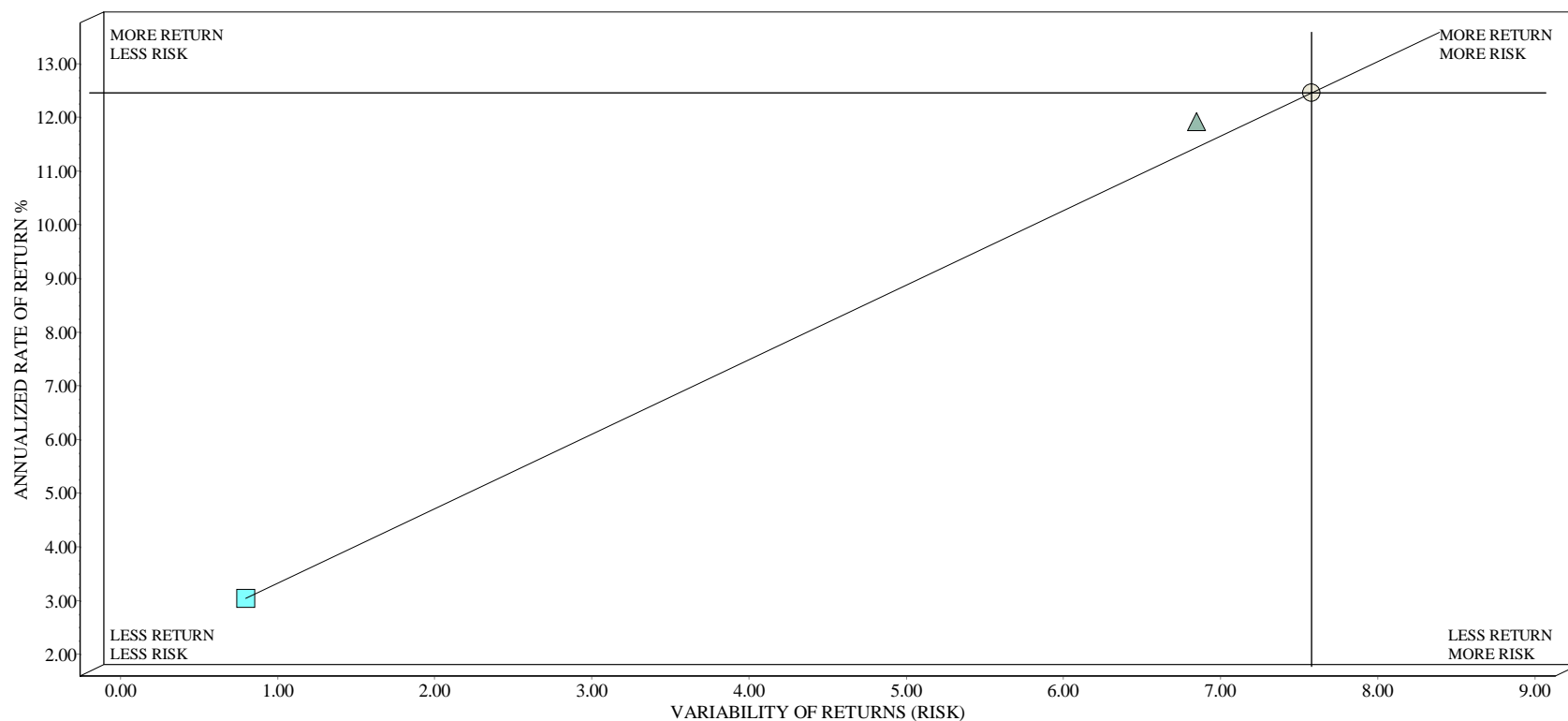
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	10.23	5.69	0.90	0.13	92.45
○ POLICY INDEX	10.87	6.16	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2020
TIME-WEIGHTED RETURNS**



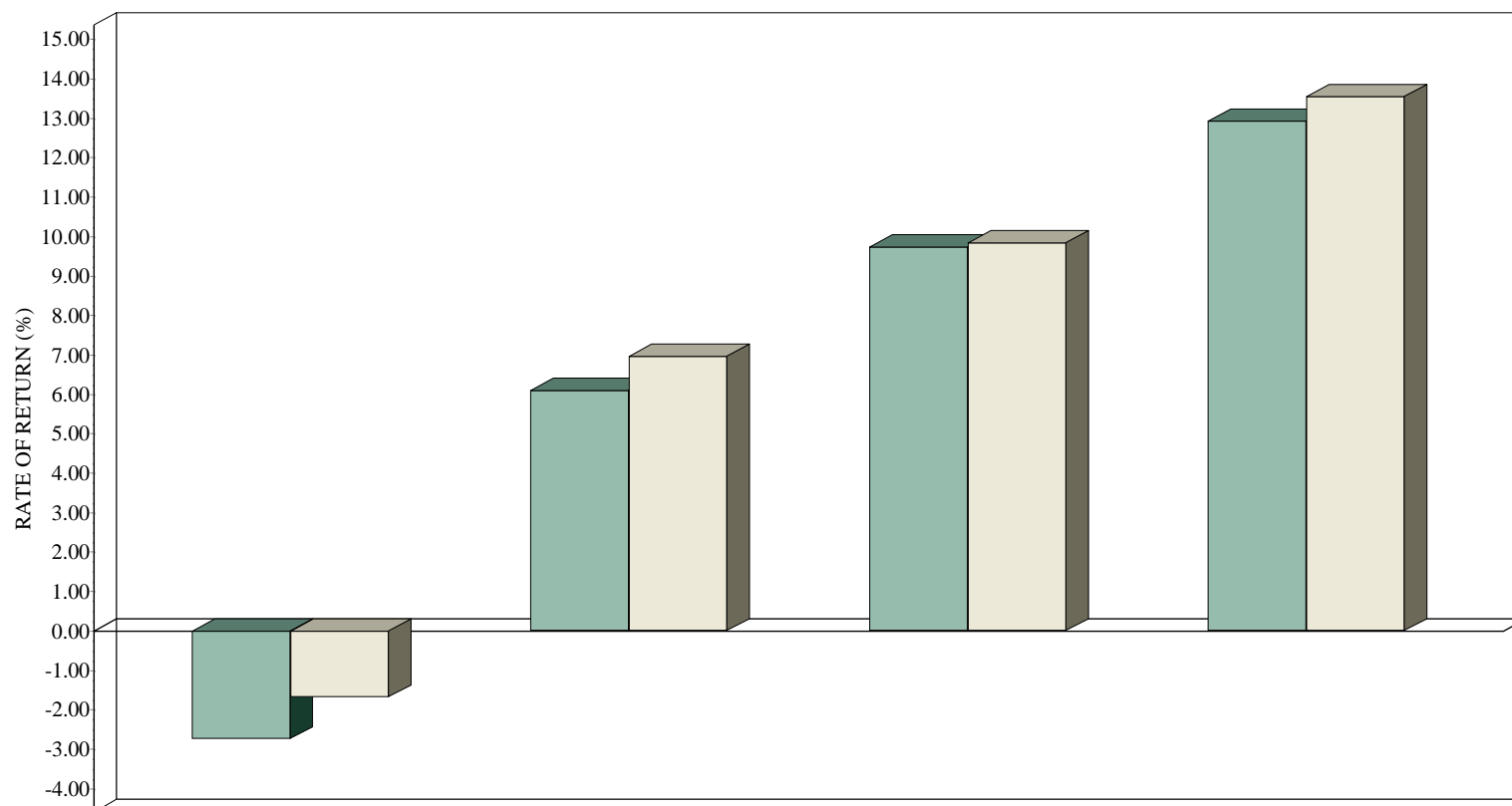
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME 2020	-2.65	5.07	8.80	11.92
POLICY INDEX	-1.15	6.97	9.20	12.45

**PRINCIPAL LIFETIME 2020
CAPITAL MARKET LINE - 5 YEARS**



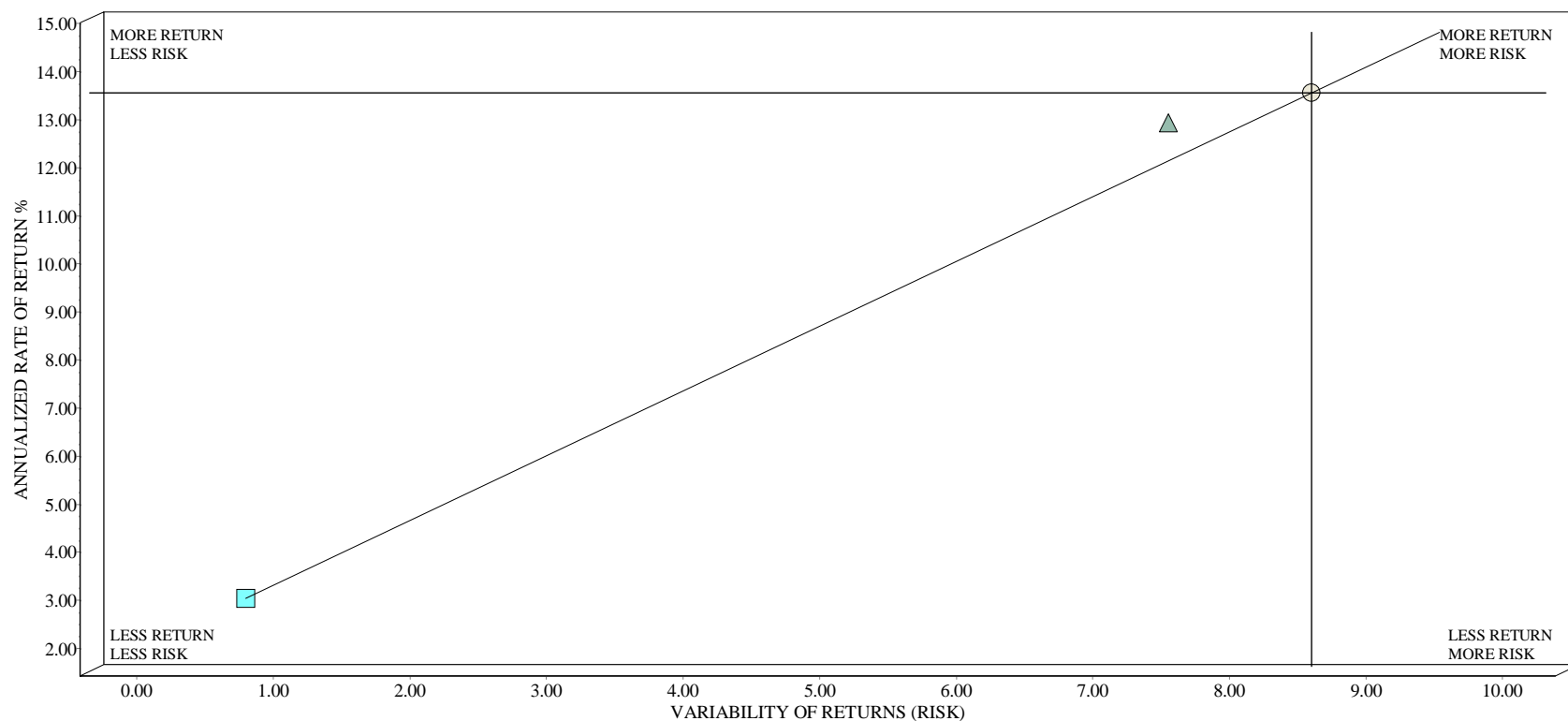
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.92	6.85	0.88	0.57	93.94
○ POLICY INDEX	12.45	7.58	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2030
TIME-WEIGHTED RETURNS**



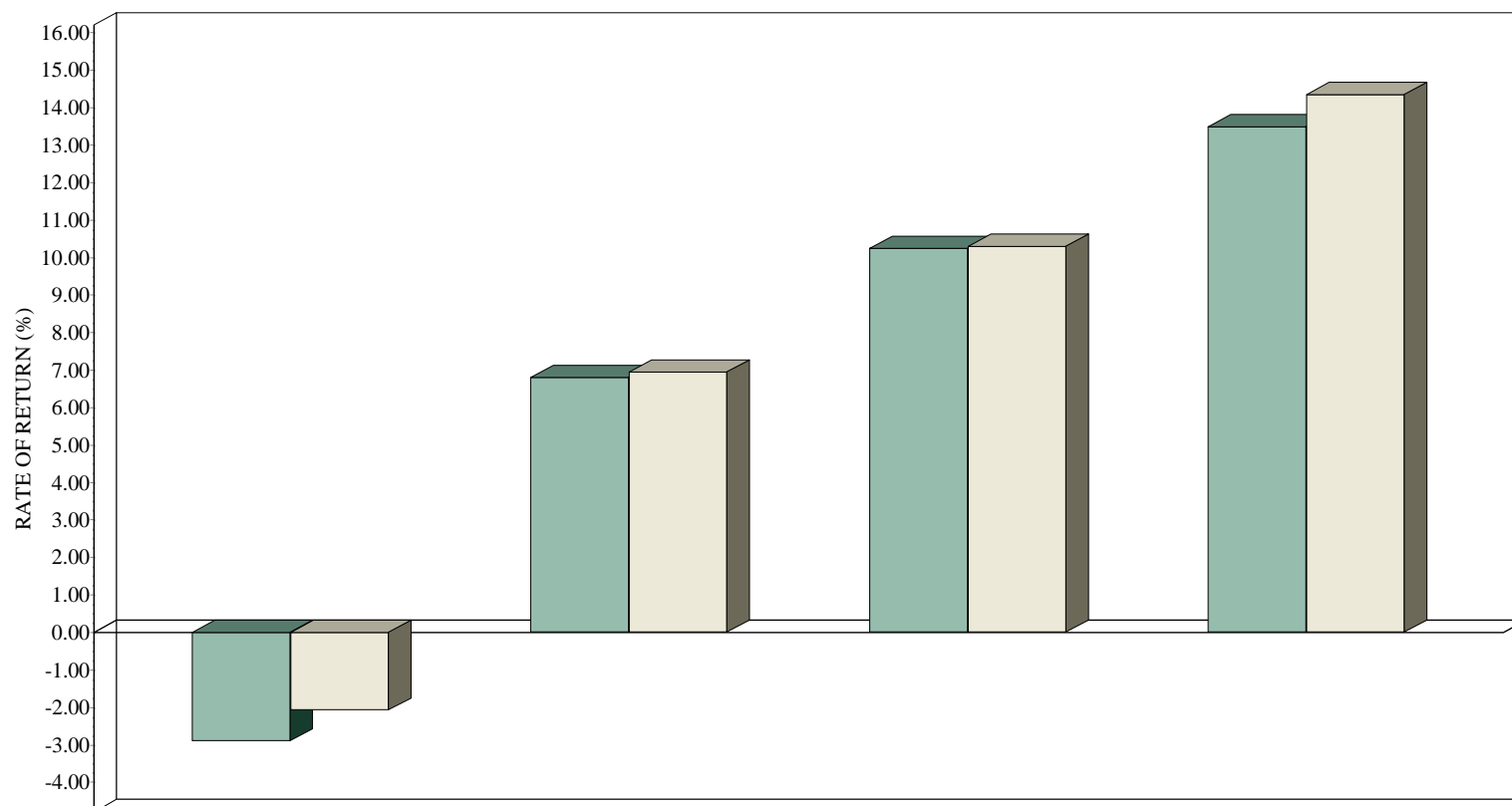
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME 2030	-2.74	6.10	9.74	12.93
POLICY INDEX	-1.69	6.97	9.84	13.55

PRINCIPAL LIFETIME 2030
CAPITAL MARKET LINE - 5 YEARS



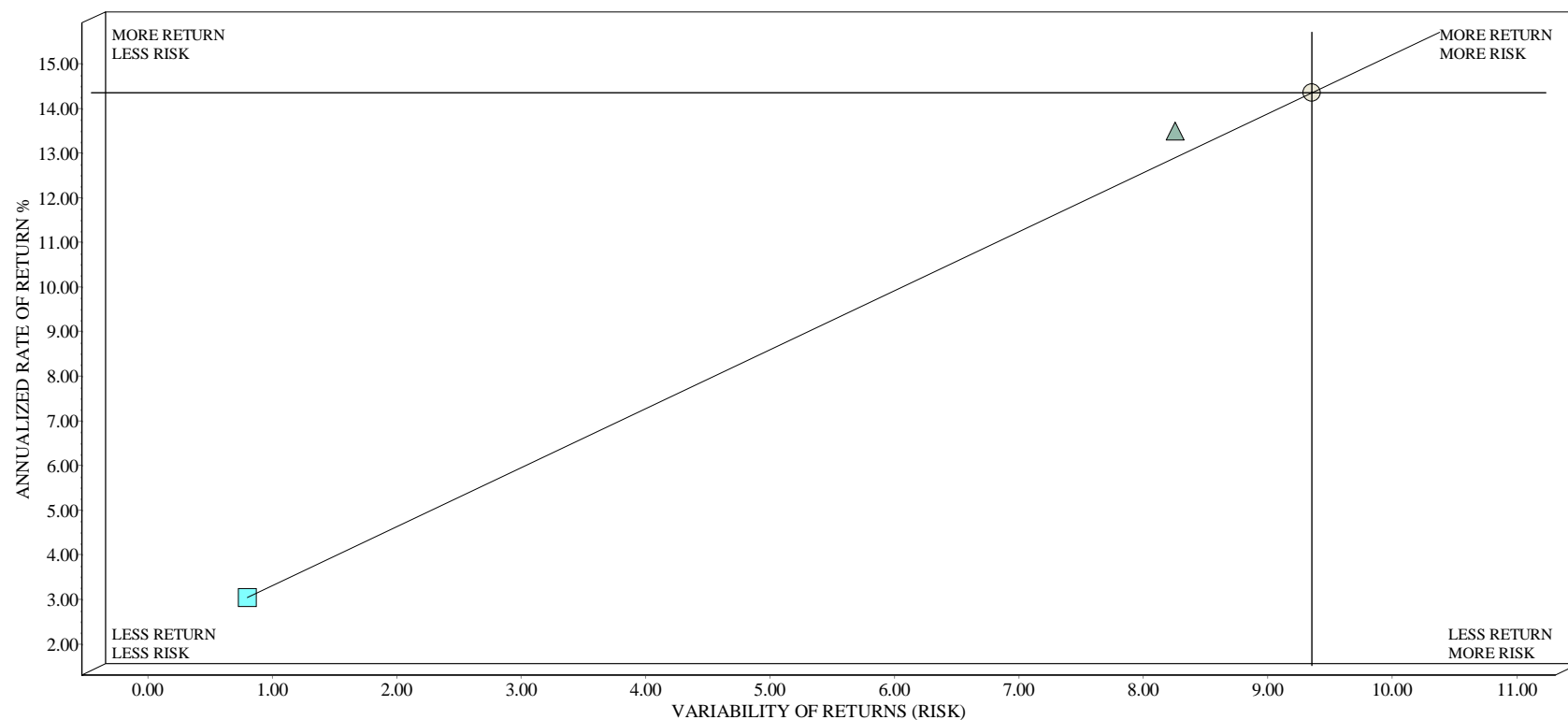
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	12.93	7.55	0.86	0.76	95.97
○ POLICY INDEX	13.55	8.60	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2040
TIME-WEIGHTED RETURNS**



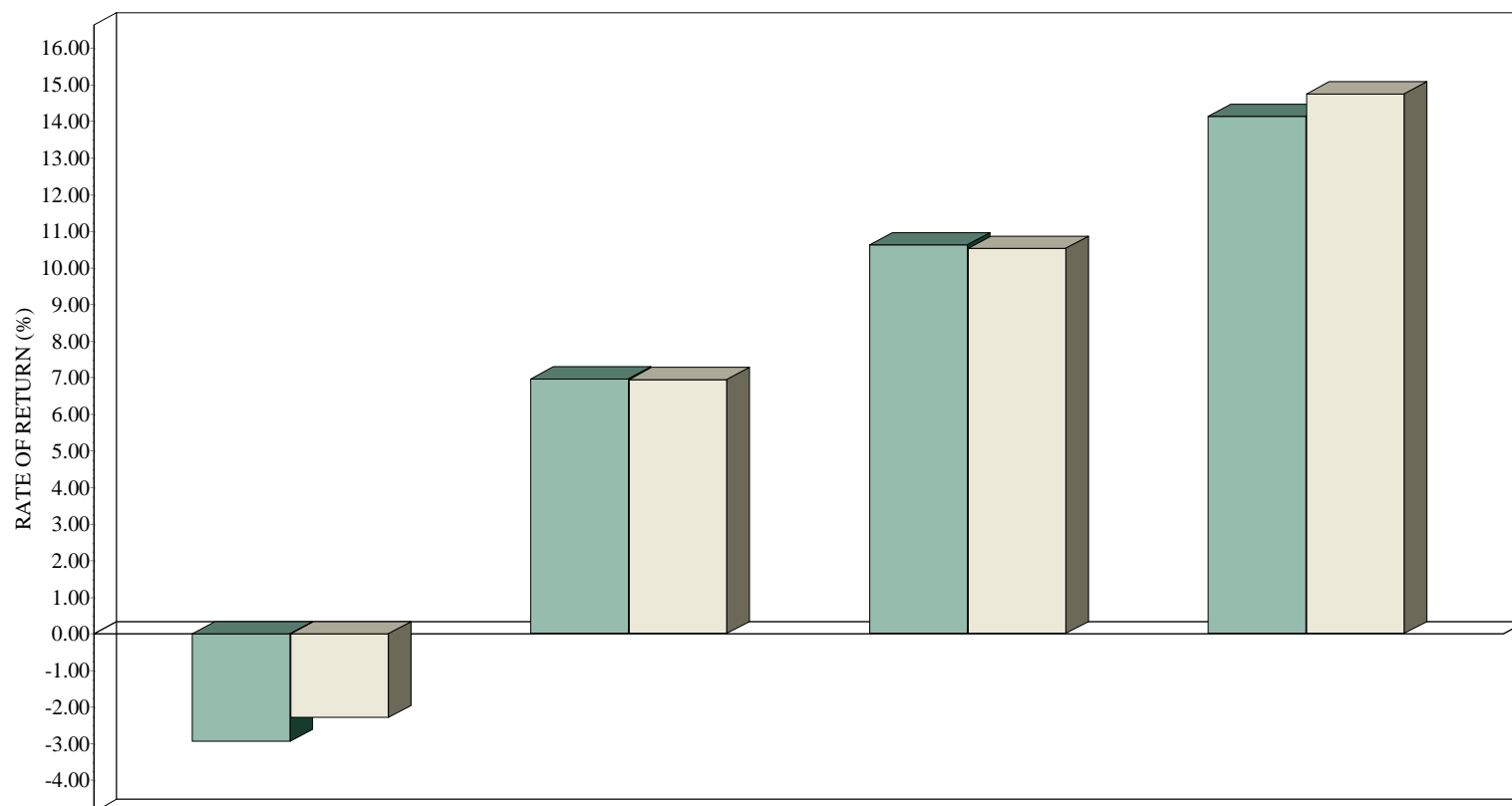
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME 2040	-2.89	6.79	10.24	13.49
POLICY INDEX	-2.08	6.95	10.30	14.35

PRINCIPAL LIFETIME 2040
CAPITAL MARKET LINE - 5 YEARS



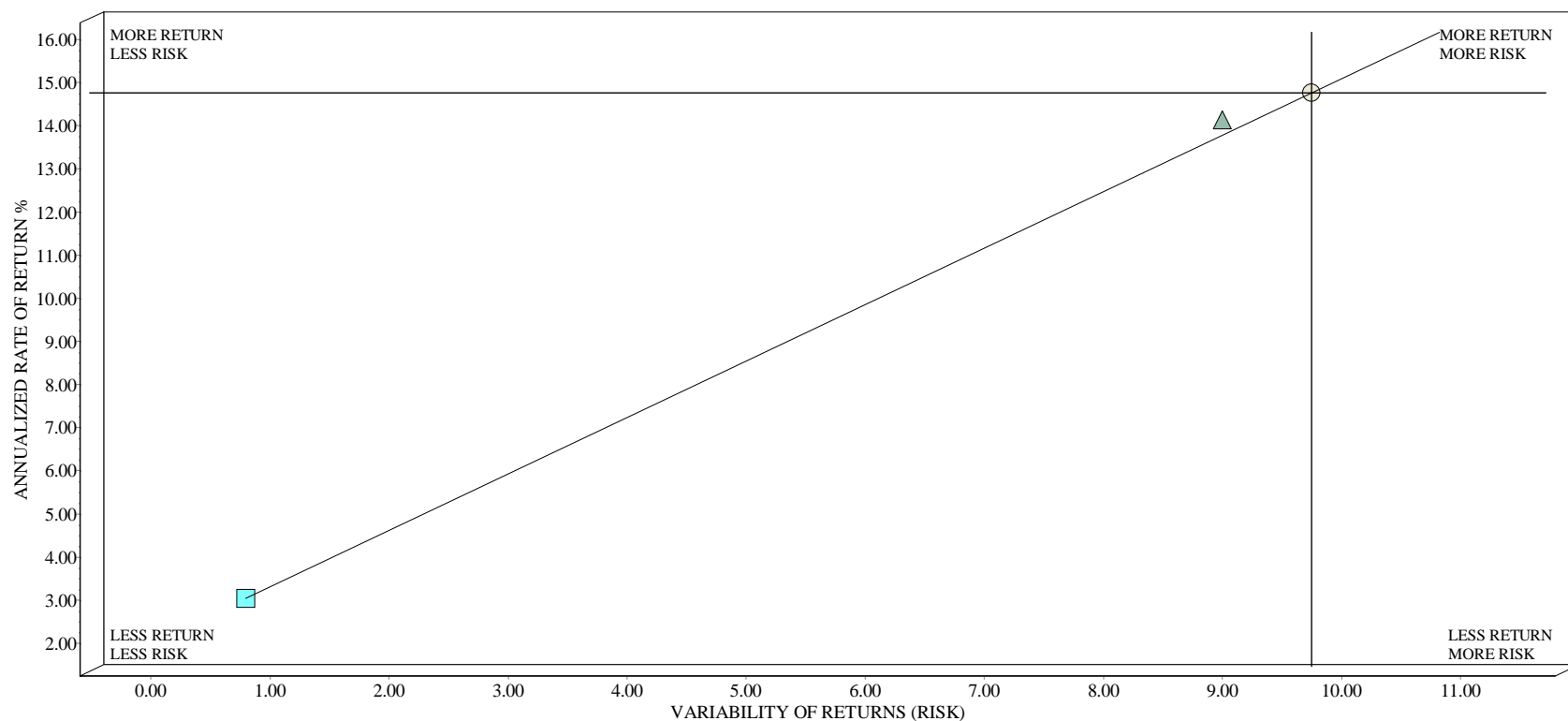
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	13.49	8.25	0.87	0.53	97.80
○ POLICY INDEX	14.35	9.35	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2050
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
LIFETIME 2050	-2.94	6.96	10.64	14.14
POLICY INDEX	-2.29	6.94	10.53	14.76

PRINCIPAL LIFETIME 2050
CAPITAL MARKET LINE - 5 YEARS



	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	14.14	9.00	0.92	0.33	98.61
○ POLICY INDEX	14.76	9.75	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	3.04	0.80	1.00	0.00	100.00

ASVIX

Overall Morningstar Rating
★★★

Manager
Roth/Giele

Total Assets
\$1,405 mil

Manager Tenure
5.4 Years

Morningstar Category
Small Value

Total Holdings
291

Inception Date
07/31/1998

Expense Ratio
1.36%

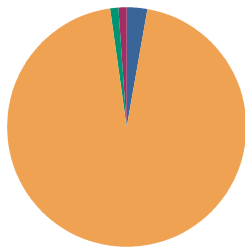
Family
American Century Investments

12b-1
0.00

Sharpe Ratio
0.02%

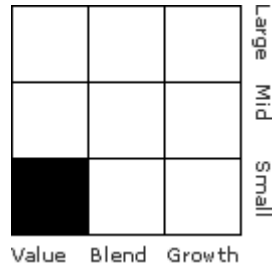
Portfolio Analysis

Asset Allocation



Cash	2.70
U.S. Stocks	95.30
Non-U.S. Stocks	1.00
Bonds	0.00
Other	1.10

Equity Style Details



Avg Mkt Cap \$Mil	1,136
P/E Ratio TTM	14.6
P/C Ratio TTM	8.6
P/B Ratio TTM	1.6
Turnover Ratio	121%

Risk Profile

	3 Yr	5 Yr	10 Yr
Morningstar Rating	4 ★	3 ★	
Standard Deviation	11.22	11.76	
Information Ratio	-0.25		

Sector Weightings

	Stocks %
Information Economy	16.6
Software	7.1
Hardware	7.5
Media	1.7
Telecommunication	0.4
Service Economy	46.5
Healthcare Services	8.2
Consumer Services	7.3
Business Services	9.4
Financial Services	21.6
Manufacturing Economy	36.9
Consumer Goods	8.9
Industrial Goods	17.6
Energy	6.4
Utilities	4.0

% Assets in Top 10

15.89%

Valuations and Growth Rates

Price/Prospective Earnings	10.3
Price/Book	1.5
Price/Sales	0.8
Price/Cash Flow	6.6
Dividend Yield	2.1
<hr/>	
Long-Term Earnings	11.3
Historical Earnings	11.8
Sales Growth	2.4
Cash-Flow Growth	0.2
Book-Value Growth	6.9

Stock Portfolio

10.3
1.5
0.8
6.6
2.1

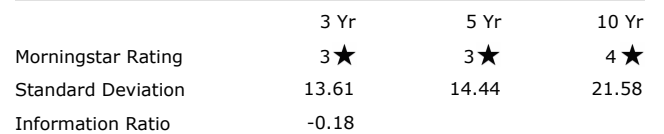
11.3
11.8
2.4
0.2
6.9

Overall Morningstar Rating
★★★

Family
Vanguard

Sharpe Ratio
0.05%

Risk Profile



Stock Portfolio

61

Vanguard Windsor II

VWNFX

Overall Morningstar Rating ★★★	Total Assets \$45,044 mil	Morningstar Category Large Value	Inception Date 06/24/1985	Family Vanguard	
Manager Barrow/Troyer/Davis/Lieberman/Shan	Manager Tenure 5.4 Years	Total Holdings 282	Expense Ratio 0.33%	12b-1 0.00	Sharpe Ratio 0.16%

Portfolio Analysis

Asset Allocation			Equity Style Details			Risk Profile				
	Cash	3.10	<div><div></div></div> <div><div></div></div> <div><div></div></div> <div><div></div></div> <div><div></div></div>	Large Mid Small	Avg Mkt Cap \$Mil	46,152	3 Yr	5 Yr	10 Yr	
	U.S. Stocks	89.70			P/E Ratio TTM	14.0	Morningstar Rating	3★	4★	3★
	Non-U.S. Stocks	7.10			P/C Ratio TTM	10.3	Standard Deviation	8.52	9.40	13.86
	Bonds	0.10			P/B Ratio TTM	2.2	Information Ratio	0.03		
	Other	0.00			Turnover Ratio	51%				
Sector Weightings			Value Blend Growth							
		Stocks %	Valuations and Growth Rates			Stock Portfolio				
Information Economy		14.9	Price/Prospective Earnings			12.5				
Software		2.0	Price/Book			1.9				
Hardware		5.5	Price/Sales			1.4				
Media		1.7	Price/Cash Flow			8.2				
Telecommunication		5.7	Dividend Yield			2.5				
Service Economy		41.8	Long-Term Earnings			10.1				
Healthcare Services		13.0	Historical Earnings			13.1				
Consumer Services		5.8	Sales Growth			4.5				
Business Services		0.7	Cash-Flow Growth			6.3				
Financial Services		22.2	Book-Value Growth			6.0				
Manufacturing Economy		43.3								
Consumer Goods		12.9								
Industrial Goods		11.9								
Energy		9.5								
Utilities		8.9								
% Assets in Top 10										
26.41%										

Description of Key Charts

Pie Chart - Shows the allocation of assets among classes and investment managers.

Bar Chart - Compares absolute performance of the portfolio to the absolute performance of the Benchmark Index.

Quartile Chart - Represents a twenty-five percent range of outcomes. A first quartile ranking means that the manager performed in the top twenty-five percent of its peer universe.

Risk Return Chart (Capital Market Line) - An analysis that exhibits the rate of return in relation to the volatility of those returns as measured by the annualized standard deviation of quarterly returns.

Characteristics - Outlines the general characteristics, i.e. median market capitalization, price earnings ratio, average quality etc., of the underlying securities that make up the portfolio.

Major Equity Strategies and Terminology

Equity - Investment or ownership interest possessed by shareholders in a corporation.

Top-Down - means that the manager looks at the “big picture” second – interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the portfolio allocation to stocks, bonds or cash. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific securities to buy in the chosen groups.

Bottom-up - refers to a manager whose practice it is second to choose securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Fundamental - This style includes managers who generate ideas by examining industry publications, 13D filings, company reports and documents, and thorough discussions with company officials. They also use SEC documents to examine a company's financial strength. Attention is also given to industry dynamics as well as the potential for events to occur that would expose a company's underlying values.

Core - managers handle diversified portfolios, typically using a broad index as their benchmark. They are hired to obtain at least general market performance. Core managers are the foundation of active equity portfolio management on which specialized, more dynamic management is built.

Value - managers analyze a universe of stocks and identify those that may be significantly undervalued (cheap) relative to a variety of fundamental and/or technical criteria. A variety of different "tests" are applied to each stock under analysis based upon the manager's definition of value. Some of the most common measures of value include the price/earnings (P/E) ratio, price/book value ratio, and price/cash flow ratio.

Growth - actually encompasses several styles. In general, managers emphasizing growth stocks attempt to identify companies whose sales, earnings, etc. are growing or are expected to grow more rapidly than other stocks and for the economy as a whole.

Sector Rotation - stresses identification and overemphasis of the sectors of the stock market expected to perform well and underweighting the expected laggards. The investment approach is "top down" in that emphasized sectors are usually identified as those that should perform well based upon anticipated economic, political, demographic and social trends.

Indexing (passive investing) - The objective of the index style is to mirror the S&P 500, or another index, and replicate the performance of that index by purchasing all or a representative sampling of the stocks in that index. Managers hold a large number of stocks in their portfolios with performance results not heavily dependent upon any single issue.

Contrarian - Style of management that invests in companies that are relatively unpopular and out of favor with a majority of investors.

Volatility - A measure of the size and frequency of the fluctuations in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Median Market Capitalization - The middle market value in a distribution of stock holdings.

Price Earnings Ratio (P/E) - The current price of a stock divided by its earnings per share.

Earnings Per Share (EPS) - That portion of a company's profit allocated to each outstanding share of common stock.

Price to Book Ratio (P/B) - The current price of a stock divided by its book value per share.

Major Fixed Income Strategies and Terminology

Fixed Income – Debt instruments issued by corporations, governments or government agencies characterized by a fixed interest rate and stated maturity date.

Top-Down - Means that the manager looks at the “big picture” second - interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the optimal duration, sector and quality of the debt securities held in the portfolio. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific debt securities to buy in the chosen groups.

Bottom-up - Refers to a manager whose practice it is second to choose the debt securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Interest Rate Anticipation - The interest rate anticipator employs an active bond strategy to adjust risk/return potentials based on attempting to anticipate change in various levels of interest. If interest rates are going up, the interest rate anticipator will shorten maturities. If rates are going down, maturities will be lengthened.

Market Timing - Market timing may be viewed as extreme interest rate anticipation. This manager is generally fully invested in long-term bonds if rates are expected to decline and up to 100% in cash if rates are likely to rise. There is little security selection involved: to implement very large purchases and sales very quickly, the timer uses only the most liquid bonds, usually Treasury Bonds.

Sector, Coupon, Credit Analysis - This style is often used in conjunction with other fixed income styles to select individual bonds. The current yield spreads between bonds in different sectors (e.g. U.S. Government versus corporate), with different coupons, or with different credit ratings are compared with the historic yield spreads to determine the most attractive sectors, coupons and credit ratings.

Indexing (passive investing) - A passive management style, indexing, involves buying a portfolio that replicates a chosen bond index in all characteristics (e.g. average maturity, coupon, quality). However, the portfolio holds only a fraction of the number of bonds in the index, but holds many more than in other styles of fixed income management. The goal is to match the performance of the index.

Duration - A measure of the effective maturity of a bond, defined as the weighted average of the times until each payment, with weights proportional to the present value of the payment.

Volatility - A measure of the size and frequency of the fluctuation in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Convexity - A mathematical prediction of how a bond will perform relative to other bonds of similar duration given a specific change in interest rates. For example, a debt security is said to have positive convexity should a decline in interest rates produce a price rise above the average equivalent security and negative convexity should the decline in interest rates produce a price rise below the average equivalent security.

Intermediate Term Bond - Bonds with a maturity between three and ten years.

Long Term Bond - A bond with a maturity of ten years or more.

Investment Grade - Bonds rated BBB (Baa) or higher by Standard & Poor's Corporation and Moody's Investment Services. Investment Grade bonds are higher quality than high yield bonds and have lower credit risk.

Treasury Securities - A bond that is a direct debt obligation of the U.S. government issued by the U.S. Treasury. Backed by the "full faith and credit" of the United States, these bonds are considered among the safest investments carrying AAA/Aaa ratings.

Agency Bonds - Debt obligations issued by government sponsored organizations such as the Federal Home Loan Bank and Federal Land Bank. After Treasuries, agency bonds are considered the next highest quality securities in the domestic fixed income market.

Municipal Bonds - Bonds issued by a state or local government or one of its agencies to supplement tax revenues for use in operating or capital expenditures.

Mortgage Backed Security - A security in which a group of mortgages are pooled together and act as collateral for the issuance of the security. The Principal and interest payments of the underlying mortgages are "passed-through" to the security holder. These securities are issued through governmental agencies.

Asset Backed Securities - Debt securities representing pools of consumer loans, typically auto loans or revolving consumer debt.

Credit Bonds - Debt obligations issued by private corporations.

High Yield - Bonds rated BB (Ba) or lower by Standard & Poor's Corporation and Moody's Investor Service. High Yield bonds are lower quality than investment grade bonds and have greater credit risk.

Quality Rating - A measure of a bond issuer's credit quality, or its ability to meet future contractual obligations. Two widely used bond ratings systems are Moody's and Standard & Poors.

Coupon Rate – the annual rate of interest paid to the bond holder.

Yield to Maturity – Internal rate of return on a bond bought at the current price and held to maturity. This assumes that coupon income is reinvested at the yield to maturity.

Quantitative Terms

Alpha - a measure of value added by the manager. Specifically, alpha is the excess portfolio return compared to the risk-adjusted benchmark.

Beta - A measure of a stock's (or portfolio) price and performance volatility relative to the market (benchmark index). A beta of 1.00 means a stock has exhibited the same volatility as the market over the period measured. A beta of 0.85 means, in general, a stock is less volatile than the market (moves 0.85% for each 1.00% move in the market) where a beta of 1.15 means a stock is more volatile than the market.

Batting Average - A measure of a manager's ability to beat the market consistently.

Correlation Coefficient - a statistical measure of the degree to which the movements of two variables are related. A correlation of 1.0 indicates a perfect correlation. A correlation of 0.0 indicates a random relationship between the returns and a correlation of -1.0 indicates a perfect negative correlation (same magnitude in different directions).

Diversification - The reduction in risk that is sought by investing in assets that are not perfectly positively correlated. Diversification is the spreading of risk among a number of different investment opportunities.

Down market - A quarter in which the market return is negative.

Down-Market Capture Ratio - A measure of managers' performance in down markets relative to the market itself.

Information Ratio - A measure of the consistency of value added by an investment manager. Specifically the information ratio is the alpha divided by the variability of the alpha.

Peer Universe - a broadly defined group of investment managers (mutual funds) who employ a similar investment style.

R-squared - a measurement of how closely a portfolio's performance correlates with a benchmark Index.

Sharpe Ratio - A risk-adjusted ratio, developed by William Sharpe, calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the ratio the better the fund's historical risk-adjusted performance.

Standard Deviation - A measure of the dispersion of a set of numbers around the average.

Time Weighed Rate of Return – A rate of return calculation that takes cash flow into consideration. Time-weighted rates of return by definition are calculated to minimize the effect of cash flows into and out of the portfolio.

Tracking Error - The amount by which the performance of the portfolio differed by that of the benchmark.

Turnover - volume of shares traded as a percentage of total shares currently held in the portfolio during a given period of time.

Up market - A quarter in which the market return is positive.

Up Market Capture Ratio - A measure of managers' performance in up markets relative to the market itself.